



*Edited by*

Susanna Alexius · Staffan Furusten

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# Managing Hybrid Organizations

Governance,  
Professionalism and  
Regulation

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# Preface

Hybridity is a timely phenomenon. The number of organizations that operate on markets as a means to finance a social mission is increasing and so are the number of areas in which hybrid organizations appear. It is becoming increasingly appropriate for organizations to find sustainable forms of operations and to acknowledge a wider range of stakeholders. Hybridity is, however, not an invention of our times.

Hybrid organizations are constituted to strive towards dual, or multiple, missions. These organizations blend different types of logic, such as the logic to generate competitive profit on the one hand and the logic of working for the common good of civil society, or the public sector, on the other hand. Blending logical decisions for organizing have been topical for some time, as social enterprises have established themselves and shared economies have emerged. Some also argue that this ‘hybridity’ presents a model for future organizations, particularly in situations where neither the market nor the state can offer sustainable solutions. However, such arguments are often politically and ideologically based. More empirical case studies are required since hybrid organizing and managing hybrid organizations are still theoretical fields under development.

In this book, we argue that there are numerous examples of hybrid organizations in history and that it is important to develop theories on how they function, develop and are managed. One way forward is to compare different types of hybrid organizing that operate under different

institutional conditions. We also have a lot to learn from the history of hybrid organizations. For example, and as discussed in this volume, as long as cities have been in existence, there have been attempts to establish systems for shared responsibility and safety, such as fire protection, which demonstrate early forms of mutual insurance initiatives. Also production cooperatives in the agricultural industry have a long history, in which local farmers would meet together to support the local region by providing important infrastructure, but also to share necessary information and logistics for cultivating raw material into consumer goods.

To contribute to a generally better understanding of what organizational hybridity is and what managing hybrid organizations means, we have gathered a number of colleagues from Sweden, Italy and the Netherlands who in their research have studied hybrid organizations, such as mutually, cooperatively, and state-owned enterprises, as well as associations that either finance social missions, or use the market to distribute what they consider to be 'good values' in society. The approach taken is explorative and multidisciplinary with contributions from scholars in management, sociology, economic history, political science, law and social anthropology. The ambition has been to gather rich and broad data about the highly topical phenomenon of hybrid organizing.

A heartfelt thank you goes to all contributing colleagues for their positive spirit, interesting chapters, and fruitful and generous discussions in the two workshops organized in Stockholm Centre for Organizational Research (Score), Stockholm. Beyond the immediate circle of authors, we also wish to extend our grateful thanks to colleagues at the European Group of Organizational Studies (EGOS) 2016 conference and the LAEMOS 2018 conference, where we had the chance to discuss ideas for this book. A thank you also to our colleagues at Score and the Stockholm School of Economics where several chapters have already been up for discussion in the research series. A warm thank you to our always constructive and helpful language editor, Kelly Olsen, and to Lucy Kidwell and the editorial team at Palgrave Macmillan for the great suggestion to write this book. And last but not least, all the authors of this collection would like to express the deepest gratitude to the many funders who have enabled us to perform our studies and to write this book. A special thank you to the Stockholm University Partnership programme STORM

(where the mutual Folksam is a main funder) for enabling us to carry out case studies and organize workshops and meetings around the editing process.

By focusing on management and governance in hybrid organizations, this book aspires to contribute to further the theoretical research on hybrid organizing generally. We also wish to provide relevant and practical knowledge for actors in the public sector, the market and civil society. The ability to perceive hybrid organizations as problematic, complex or challenging in an inspiring way is fundamental to the mindset of leaders as well as other important stakeholders. Those who are able to embrace and cherish complexity can understand the potential value and contribution that hybridity can bring to society. On a more personal note, the notion of hybridity is a fulfilling one, as it puts management to the test and allows multitalented individuals with a broad portfolio of expertise and experience to be challenged, and therefore they are enabled to thrive at work. Not all leaders are capable of undertaking this challenge, but we believe that those who are have a lot to learn from one another, regardless of whether they are involved in a state-owned enterprise (SOE), a mutual organization, a cooperative or any other association with hybrid features. We therefore hope that this book will act as inspiration for further discussion and the sharing of cases and strategies within this special leadership community.

Stockholm, Sweden

Susanna Alexius  
Staffan Furusten

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# 1

## Exploring Constitutional Hybridity

Susanna Alexius and Staffan Furusten

### 1.1 Introduction

The aim of this book is to explore opportunities and challenges for the management and governance of hybrid organizations. Although a topical organizational form in contemporary society, with current establishments of corporations designed as benefit corporations (B Corps) or social enterprises (for-profit corporations established with an outspoken purpose to provide charity or take genuine social responsibility), for example, hybrid organizing is not a new phenomenon. The history of corporations with a social engagement is a long one. Cooperative corporations and mutually owned enterprises established to tackle social challenges go way back, to the turn of the nineteenth century, or earlier. During the twentieth century, we have moreover seen a rise, in many countries around the

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world, of enterprises owned by states, regions or municipalities—enterprises with an overall purpose of serving society. Thus, organizational hybridity has both a long history and forms a part of the organizational life of different sectors of society. Or, to be more precise, it spans *across* the ideal-typical borders of these sectors, thanks to the hybridity of these organizations. To explore what it is like to manage and govern in such a multifaceted setting, this edited volume applies a multidisciplinary approach with contributions from scholars of management, economic history and law, as well as sociology, political science and social anthropology. Having this competence on board on the team of authors allows us to draw attention to different dimensions in the analyses, ranging from economic, legal and political aspects and conditions, to cultural and social conditions of hybrid organizations.

This exploration of the variety of hybrid organizing also includes analyses of different types of hybrids, such as cooperatives, and mutual- and state-owned enterprises (SOEs). The multidisciplinary approach and variety of case studies collected in particular help to advance our understanding of management and governance of hybrid organization by opening up for discussions on a variety of dimensions of hybridity and examples of hybrid organizations. Special focus is placed on exploration and comparison of what is defined here as “constitutional hybrid organizations”, thus hybrid organizations founded with the explicit purpose of fulfilling their mission by integrating either different institutional orders such as the market, the public sector and civil society, or structural traits from the logics of different ideal-typical organizations such as the business corporation, the public agency and the association.

Although the book gathers scholars from different disciplines and offers a collection of cases covering a range of examples of hybrid organization, the overall research question is the same: how are hybrid organizations managed and governed? We study the development over time of hybrid organizations and how their management teams face and respond to changing institutional conditions in their environment. We analyze the characteristic features of management and governance in different times and discuss how the decisions and actions of managers, boards and others involved in governance can be explained. Taken together, the different hybrid organization cases explored in the book highlight what it

means to run organizations that fall in between different institutional orders. Do such situations require special management and governance procedures and competences? The cases illustrate that good judgment to improvise and continuously adjust to different and shifting institutional demands (due to complex arrangements of stakeholders with different interests) constitute a characteristic dimension and competence of sustainable management and governance of hybrid organizations. In the following sections, we describe the volume's theoretical framework and elaborate more on why we believe that recognition of these kinds of management and governance skills is timely and highly relevant.

## 1.2 Hybrid Organizing: A Topical Theme with a History

Organizational hybridity is a hot topic today among practitioners and policymakers in the public, private and civil sectors. The corporate social responsibility (CSR) and sustainability movements and the general trend toward “hyper-organization” in recent decades have heightened expectations on organizations to respond to increasingly pluralistic and complex institutional environments (Kraatz and Block 2008; Thornton and Ocasio 2008; Mars and Lounsbury 2009; Bromley and Meyer 2015). In addition, acute social, environmental and economic challenges open “opportunity spaces” for hybrids (Holt and Littlewood 2015). Some sources claim that, as a consequence, the number of hybrids is on the rise (e.g. Haigh et al. 2015). Whether this is actually the case or not, the renewed interest in hybridity of both practitioners and scholars from across disciplines and empirical fields (e.g. Brandsen et al. 2005; Billis 2010; Battilana and Dorado 2010; Pache and Santos 2010; Jay 2013; Pache and Santos 2013; Ebrahim et al. 2014; Battilana and Lee 2014; Mair et al. 2015; Denis et al. 2015) encourages us to identify and better acknowledge already-existing hybridity in organizational life. In essence, and as seen in some of the historical case studies in this volume, hybridity is not a new phenomenon, and organizational conditions and legitimacy-seeking responses to institutional demands and complexity have long been of central theoretical concern to organization scholars (e.g. March

and Simon 1958; March 1962; Cyert and March 1963<sup>1</sup>; Meyer and Rowan 1977; DiMaggio and Powell 1983; Oliver 1991).

### 1.2.1 Conceptualizing Hybridity: Beyond Normative Assumptions of Goodness

When comparing basic theory on institutional demands and responses with the growing contemporary literature on hybrids and hybridity, we note a normative stance in many recent studies, where concepts such as “social enterprise”, “social venture” or “social entrepreneurship” are used, and the argument is that the hybrid form per se renders a particular capacity to better handle complex missions and societal challenges. The typical empirical scope of such studies covers relatively recently established microfinance organizations, sustainable food producers and work integration social enterprises (WISEs) that combine aspects of the business and charity forms at their core (Dees 2001; Aiken 2006; Mars and Lounsbury 2009; Battilana and Dorado 2010; Mair 2010; Grassl 2011; Ebrahim et al. 2014; Battilana and Lee 2014).

Following Greenwood and Freeman (2017), we find that departing from the more neutral concept of “hybrid organization” offers an advantage over more normative concepts such as “social enterprise”. This is because the concept of hybrid organization encourages critical analysis of *possible* ethical and social impacts (among others) of the hybrid, without taking them for granted a priori. That is, organizational hybridity is not a guarantee of good outcomes.

Furthermore, and as rightly pointed out by Doherty et al. (2014), as hybridity is increasingly seen as a normal aspect of organizational life, one may question the analytical usefulness of the hybridity concept. What does the concept offer if all organizations are perceived as hybrids? One fruitful trajectory, also suggested by Doherty et al. (2014), is to leave the common analytical design of comparing hybrids to non-hybrids behind

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<sup>1</sup> Cyert and March's *The Theory of the Firm* has been an important starting and reference point for an influential theoretical development in the field of organization studies. The authors argue that firms can be seen as coalitions of interests, a view which corresponds well to the much later work of Pache and Santos (2010), who see hybrid organizations as existing in a state of “colliding worlds”.

(due to the difficulty of defining an organization as a non-hybrid these days) to enable a more exacting exploration of the many interesting differences *between* organizations characterized by varying types and degrees of hybridity. This is the route taken in this volume.

### 1.2.2 Constitutional Hybridity: Combinations of Institutional Logics and Traits of Character

Following Mair et al. (2015), hybrid organizations are generally characterized by three attributes: (1) a variety of stakeholders, (2) the pursuit of multiple and often conflicting goals and (3) engagement in diverse or inconsistent activities. Although critics of the usefulness of theorizing on organizational hybridity may say that these are characteristics of most organizations, the hybrid organization literature highlights that these attributes are more pronounced in some types of organizations than in others. Though, admittedly, it remains a general and relatively vague definition of organizational hybridity.

Although the conceptual vagueness of organizational hybridity has no doubt contributed to its popularity in recent years, there has been an unfortunate overuse of the concept, which risks diluting its analytical value. In the earlier literature, many scholars depart from the notion of *institutional logics* where an organization can be defined according to its degree of hybridity in the sense that fewer or more logics may influence its operations to a lesser or higher degree. And while the institutional logics literature is ripe with suggested labels of logics (on different analytical levels), we find it fruitful to also bring in organization theory, where a differentiation is traditionally made between three typical organizational forms: the public agency, the corporation and the association (see Table 1.1). These forms are “ideal-typically” associated with the institutional orders of the public sector, the market and civil society, respectively (e.g. Sjöstrand 1992; Forssell and Ivarsson Westerberg 2007; Thornton et al. 2012).

Due to the high degree of institutionalization of these three ideal-typical forms of organization in contemporary society (Thornton et al. 2012), organizational stakeholders and policymakers expect certain

**Table 1.1** Framework with organizational ideal-types and six dimensions of potential hybridity

Institutional order	Public	Market	Civil society
Organizational form	The public agency	The joint-stock company	The association
Owners/ Principals	State (including counties and municipalities)	Shareholders	Members
Purpose	Administration and service of public benefits	Profits and dividends to shareholders	Facilitate actions to reach shared goals
Main stakeholders	Citizens	Customers	Members
Main source of financing	Taxes	Sales	Fees

Source: Adapted from Sjöstrand (1992), Brunsson (1994), Forssell and Ivarsson Westerberg (2007) and Thornton et al. (2012)

patterns of behavior from organizations that formally comply with these institutional logics. Following this standard line of reasoning, those that fail to conform to institutionalized modes of organization and therefore break with the norms and expectations for organizing, stand less of a chance to survive and thrive due to “institutional confusion” among key stakeholders (Brunsson 1994). And, above all, it is assumed that, in response to such pressure from the institutional environment, organizations will adjust their formal structure to the norm, as captured in the concept of isomorphism (Meyer and Rowan 1977; DiMaggio and Powell 1983). Seen from this perspective, the hybrid organization may be perceived as an odd and temporary creature in the social landscape that, due to its bridging and blending of ideal-typical features and structures, is more fragile and sensitive to external pressure than the ideal-typical conforming organization.

As mentioned earlier, however, in practice, most organizations are influenced by several different interests and hence several ideal-typical logics of operation. For example, a microfinance organization, where the resources are generated through commercial business, may aim to provide charity to people in need. Thus, charity (an example of civil society order) is blended with profit-making (an example of market order). It is one thing to



**Fig. 1.1** A continuum of different logics blends

organize, manage and assess the performance when the purpose is to provide charity to certain groups, while it is another to organize, manage and assess activities that are run commercially in competition with other providers of similar services in markets. The blending of logics (more or less of one or the other logic) may differ between organizations and over time. Figure 1.1 depicts the notion of *degrees of hybridity* as a certain state or “blend” on a continuum between two distinguishable endpoints.

In addition to conceptualizing hybridity as a blend of logics, we also introduce the concepts of *constitutional hybridity* and the *constitutional hybrid*. In political science, the concept of the constitutional hybrid has been used to define nations that, in their constitution, combine features of various systems of government.<sup>2</sup> In this volume, following Alexius et al. (2017), we use the concept to define organizations that are, similarly, hybrid by constitution, that is, that were established for the explicit purpose of integrating not only different institutional logics but also structural elements typically found in different societal spheres to fulfill its mission. Examples of constitutional hybrids that are analyzed in the chapters of this volume include limited enterprises fully owned by the public, limited enterprises fully owned by civil society organizations as well as cooperatives and mutually owned enterprises (mutuals).

To illustrate with an example, for mutual enterprises, profits represent a sore spot because, according to the law (see Chaps. 15 by Andersson and 16 by Beshar and Furusten), it is in a mutual’s interest that any surplus be used for the mutual benefit of its members, the policyholders. According to the corporate logic of the market sphere, profit-making should be a core purpose and a ground for valuation and evaluation. According to the civil society organization logic, on the other hand,

<sup>2</sup>One example is Ghana, whose 1992 constitution is a hybrid arrangement that combines features of the US presidential system and of the British Westminster system of government (Van Gyampo and Graham 2014).

profit-making should not be encouraged in its own right but must serve some “higher purpose”. Although civil society organizations must also capitalize their operations, there is a latent civil society skepticism toward capitalism. This potential conflict—inherent in the constitution of the mutual—poses a constant challenge to the organization, making it necessary for the civil society constitutional hybrid to continuously seek a legitimate balance between profit maximization (a typical interest of corporate owners) and mutual benefit (a typical interest of civil society members) (Spear 2004; Alexius et al. 2017).

In order to discuss more explicitly the dimensions in which constitutional hybridity might be manifested in organizations, and the institutional conditions under which different types of constitutional hybridity may be likely to arise, as well as the kind of institutional plurality these kinds of organizations are likely to face, we refer to three ideal-typical institutional orders mentioned earlier. Table 1.1 draws on Thornton et al.’s (2012) definitions of different institutional orders in society, reduced to the three ideal-typical institutional orders commonly referred to in management and organization studies: the public sector, the market and civil society. The table also lists a number of core characteristics associated with the institutional logics of the public organization, the joint-stock company and the association (cf. Sjöstrand 1992; Brunsson 1994; Forssell and Ivarsson Westerberg 2007). From the perspective of ideal-typical institutional logics for organization, hybridity deviates from what is institutionalized as the “normal” organizational state, since the typical hybrid is a blend of institutional logics and/or a blend of ideal-typical structural traits (see also Billis 2010; Denis et al. 2015; Grossi and Thomasson 2015; Skelcher and Rathgeb Smith 2015). This means that hybrids do not fully fit into one single logic or institutional order.

The table introduces six dimensions of potential constitutional hybridity. The *first dimension* is the institutional order where organizations ideal-typically belong to either the public, the market or the civil society sector. In reality, however, many organizations blend and combine the logics and structures of two or more sectors.

The *second dimension*, organizational form, refers to the typical institutional logics: the public agency, the joint-stock company and the association (e.g. Thornton et al. 2012). In its pure form, each institutional



logic is expected to represent the kind of organization expected to operate under the respective institutional order. In practice, however, many studies have shown that public organizations, for example, have become “company-ized” since the early 1990s and joint-stock companies have become “politic-ized” (Brunsson 1994), where not least the institutional pressure on them to implement programs, standards and codes for CSR and take social responsibility are topical examples. Following Brunsson (1994), enterprises have also become “association-ized” in the sense that many, especially retail companies, have established customer “clubs” that offer members discounts. Moreover, many associations have become company-ized, where logics of the joint-stock company have been used for organizational reforms, such as when sports clubs have established joint-stock companies to handle the commercial dimensions of their activities. Such hybridizations of organizations often cause “institutional confusion” (Brunsson 1994) in terms of the logic of appropriateness (Who am I? What situation am I in? What should a person like me do in a situation like this? (March and Olsen 1989).

In the *third dimension*, the ownership structures of organizations are in focus, where different characteristics are expected to be represented under different institutional orders. In associations, members are the owners, whereas shareholders are the owners of private enterprises, and public organizations are owned by the citizens of a nation, municipality or other jurisdiction. Studies of organizational practice in the three sectors show, however, that hybrid ownership arrangements are likely to appear in each of the institutional orders, for example, in cases where the state or associations own joint-stock companies or where customers automatically become members in associations that own enterprises, as in the case of enterprises mutually owned by their customers. In such situations, the logics of the public sector and civil society blend with the logic of the market.

In the *fourth dimension*, constitutional hybridity is reflected in the form of organizational purposes. The example often referred to in the hybrid organization literature, the social enterprise, is typical in this regard since it is run as a market-based enterprise with an expressed mission to use the surplus generated to do good in society, through either the services it offers (such as microloans to entrepreneurs in developing

countries or support for the integration of migrants), by producing healthier food, by encouraging more sustainable consumption patterns in global society and so on. From an ideal-typical standpoint, social responsibility and responsibility for the common good are responsibilities we associate with the public sector and the logic of public organizations, where social entrepreneurship implies taking social responsibility at the same time as employing a business logic to generate resources to fulfill the social mission. Thus, a blend of the public, civil society and market institutional orders.

The *fifth dimension* emphasizes hybridity in terms of who the main stakeholders of organizations are expected to be. In public organizations, it is expected that citizens are the main stakeholders, while joint-stock companies are expected to be focused on satisfying their shareholders, and associations their members. In practice, however, many organizations would claim that their main stakeholder is the citizenry, that what they do is to serve society and citizens with services and products. Moreover, although an association may claim that its main stakeholders are its members, if the association also runs commercial operations and those operations are dependent on this financial revenue, the association's customers and sponsors are likely to be seen as additional main stakeholders. The same is likely to be true for SOEs, where the state and citizens are formally the main stakeholders due to the ownership structure, but where many SOEs are expected to be self-supporting, meaning that their customers, who are normally also citizens of the same country (although there are cases where SOEs operate in international markets), also become core stakeholders.

Finally, in the *sixth dimension*, there can also be hybridity in terms of sources of financing. The typical retailer cooperative is a good example of this, where membership fees are one source of financing, and the cooperative's retail sales another. There are also examples of associations founded in close relation to political parties and popular movements, whose members, for example, unions and other popular movement associations, support them financially through membership fees and donations and where other sources of finance can be government grants or sales to customers, who may also be members. Popular non-degree adult education organizations are typical examples in this regard.

Although we have listed six dimensions of hybridity based on core characteristics of ideal-typical organizations, it is important to note that this does not mean we have covered all possible dimensions of hybridity and combinations of orders, logics and character traits of different types of organizations. Rather, defining constitutional hybridity is best done empirically. This raises the need to discuss the dynamics of hybrid organizing and to theorize on when and under what institutional conditions different combinations of dimensions of hybridity may exist, whether we can identify patterns and define categories of hybrid organizations and in what situations they tend to be legitimized as appropriate organizational forms. Closer examination of these issues will enable us to have a more detailed discussion of the capacities hybrid organizations may have to handle institutional plurality in the long term.

To sum up this section, when performing a comparative analysis on hybrids, it is fruitful to distinguish between different degrees of hybridity and between hybridity of different kinds. The table provided earlier can be useful in this respect. Depending on how many dimensions and traits organizations blend, they can be seen as being more or less hybrid.

### **1.3 Managing and Governing Hybrid Organizations**

Hybridity is a double-edged sword for management and governance because, in essence, managing complexity is a challenge, and stepping out of the norm always invites questions and often also confusion. A good example of this, which is also discussed in several chapters of this volume, is the frustration experienced by many hybrids of not really fitting into contemporary organization performance measurement and evaluation models. On the other hand, complexity may also mean that hybrid organizations can make flexible use of their position of being in between different institutional orders and logics in the sense that if their conduct is questioned in relation to one order or logic, they can claim that they operate under another order and logic and, thereby, at times, escape criticism. Thus, it can be argued that they have a constitutional capacity to respond to criticism and institutional demands by arguing that they are

different. An organization may, for instance, be able to respond to criticism concerning evaluation standards designed for a typical joint-stock company, by referring to its social or public mission.

In the literature on hybrid organizations, these two edges of the sword are also discussed in terms of the special ability of the hybrid to be legitimized in pluralistic environments, thanks to its position at the interface of two or more logics. Jancsary et al. (2017) argue that this position may come with the ability of multivocalism, an opportunity to leave open which logic is initiated. This multivocal ability, Jancsary et al. argue, is likely to yield the organization more leeway to conform (or not) to institutional plurality, granting the organization the advantage of selecting elements from different institutional logics. The authors (*ibid.*) call for more studies, however, to explore the conditions for multivocalism. One such condition may be that hybridity gives an organization the opportunity and flexibility to pick and choose legitimacy-enhancing elements from different institutional logics (the joint-stock company, the public agency and the association) in order to survive and thrive (Brunsson 1994; Battilana and Dorado 2010). On the other hand, there are also studies that suggest that hybrids tend to face greater public scrutiny, which may mean that, in practice, their leaders may have not more but less authority and flexibility to make decisions (Rainey and Chun 2005; Radon and Thaler 2005).

One challenge for hybrid organizations, then, is that the blending of institutional orders, logics and traits of character increases the degree of complexity in institutional conditions for the people engaged in managing and governing these organizations. There are more variables to consider since the organization is influenced by different institutional orders. It is consequently also likely that there are other more specific variables hybrids need to handle. In general terms, when something is perceived to be complex, it is likely that it is seen as more difficult to control, manage and assess. This is a core dilemma of management and governance identified in the literature on organizational hybridity (e.g. Mair et al. 2015). Aligning or in other ways negotiating and configuring potentially conflicting objectives and values may sound straightforward, using a popular win-win rhetoric, but in practice, and as illustrated in the case studies of this volume, it is often a balancing act that requires substantial

competence, judgment and “fingerspitzengefühl” from those involved in management and governance (Alexius and Tamm Hallström 2014; Alexius and Grossi 2017), or improvisation (Furusten 2013; Zack 2000; Hatch 1998; Weick 1998).

Thus, it is likely that the bridging of institutional orders and logics and the combining of various types of expertise and experiences are of particular importance for the management and governance of hybrid organizations. A capacity to bridge institutional orders and logics may be what enables the hybrid to become a legitimate actor for engaging different stakeholders in broad dialogues that may generate paths for social innovation. Thus, representing a blend of different institutional logics (such as having an explicit social mission while being a business actor in markets), the hybrid organization may be particularly well adapted to such roles. A similar argument is suggested by Padgett and Powell (2012), who claim that the hybrid position at the interface between logics offers opportunities for innovation. Comparing hybrids to traditional businesses, Hockerts (2015) argues, on a similar note, that hybrids are more open to sharing lessons and encouraging others to copy their approaches. Skills that promote multivocality, such as improvisation skills experienced not as noise but as interesting combinations that make sense in a wider context, may be a type of competence required for sustainable management and governance of hybrid organizations. Still, hybridity is a complex and tricky endeavor, where achieved legitimacy may be temporal and fragile since it may also generate frustration and institutional confusion both internally and externally. This calls for both identity work and communication skills in order to secure key resources (such as recruiting management and employees, raising funds and building partnerships and networks), if the hybrid organization is to keep up the balancing act of both cultivating a clear social or public mission of some sort and running self-financed organizations over long periods of time.

Although hybrid organizations often face a challenge in handling the tensions between their identities, the conflicting logics they respond to and the practices they implement (Battilana and Lee 2014; Santos et al. 2015), how these organizations select, prioritize and integrate plural institutional logics remains a topic in need of theoretical development (Kraatz and Block 2008; Denis et al. 2015). In recent years, there has

been a repeated call for empirical studies on the coexistence of and responses to multiple logics in organizational fields, with a particular focus on both the micro-perspective of these issues and the connecting of these micro-aspects to meso- and macrolevel developments (Kodeih and Greenwood 2014; Reay and Hinings 2009; Purdy and Gray 2009; Dunn and Jones 2010; Meyer and Höllerer 2010; Su et al. 2017). This volume is a response to this call.

Furthermore, it is also a response to calls voiced in literature reviews on hybrids. Mair et al. (2015) suggest, for example, that the organizational governance of hybrids, that is, the systems and processes by which the hybrid organization is directed, controlled and held accountable (Cornforth 2003) have long escaped scholarly attention. Moreover, Battilana and Lee (2014) call for organizational scholars to study the dynamics over time of how an organization can sustainably manage tensions and combine multiple forms.

## 1.4 Our Contribution: Management and Governance in Different Hybrid Organizations

One difference between the approach taken in this book and that in the previous literature of hybrid organizations is the empirical focus. Importantly, the chapters in this volume cover a range of different types of hybrid organizations, most of which are hybrids by constitution. There are cases about producer cooperatives, corporatized civil society organizations, public enterprises (both state-owned and municipally owned) and mutually owned enterprises. This varied population of hybrid organizations is welcome as most previous studies have been based on observations of one particular type of hybrid organization: the social enterprise, defined as an organization that combines aspects of business and charity at its core, such as microfinance institutes, sustainable food producers and WISEs (Battilana and Lee 2014).

In comparison to the cases included in this book, most previous studies on hybrid organizations focus on fairly young social enterprises established relatively recently (the mid-2000s or later). Many of the studies

presented in this volume describe organizations with a much longer history. Since these organizations are still in operation, this gives us an opportunity to discuss the long-term dynamics and development of management and governance in hybrid organizations, how these hybrids have managed their existence in institutional pluralism over decades and, in some cases, centuries. Moreover, the contemporary literature on hybrid organizations views hybridity mainly from a North-American viewpoint, where there is a link between social entrepreneurship and charity. Mair et al. (2015), for example, argue that there are differences between US and European hybrid traditions, where the literature today is dominated by US perspectives on hybridity represented primarily by “new” social enterprises, while the European tradition relates more to “older” types of social enterprise such as the cooperative tradition of collective social action. This book contributes to the field by its focus on European examples.

Another difference from earlier literature is that we aspire to narrow the scope of observation—not only to distinguishable kinds of hybrid organizations but also to particular processes in hybrid organizing. We build here on Doherty et al.’s (2014) call for studies that focus on management processes in hybrid organizations. The book responds, moreover, also to the call by Mair et al. (2015, p. 714) to narrow the scope of organizational elements in focus in studies of hybrid organizations from the study of “whether and how hybrid organization combine multiple institutional logics”, and look more closely instead at “organizational governance”. By highlighting, in particular, management and governance issues in different types of European-based hybrid organizations of the “old school” types, such as cooperatives and mutuals, as well as associations and SOEs, this book contributes significantly also to these calls for empirically based theorizations.

## 1.5 Short Description of the Chapters

In Chap. 2, “Variations and Dynamics of Hybridity in Different Types of Hybrid Organizations”, Staffan Furusten and Sven-Olof Junker explore general characteristics of business cooperatives, mutual companies and SOEs.

The authors analyze how these three types of hybrids describe their organizational legacy in contemporary management texts and find that business cooperatives and mutuals use historical narratives to form a bridge between the organization's historical social mission and its current institutional environment. SOEs are, in comparison, less dependent on historical legacy and more dependent on signals from the state and government.

In Chap. 3, “‘Same same but different’: Trust, Confidence and Governance Among Swedish Mutual Insurers”, Mats Larsson and Mikael Lönnborg decode the historical roots, governance and management structures of two Swedish mutual insurance firms, *Folksam* and *Länsförsäkringar*. The analysis shows that it is possible to organize successful hybrid organizations with longevity and that the state's role is vital but not always a precondition for a successful development. The chapter concludes that, no matter the governance structure used, it has proven difficult to engage customers/owners in the governance of the mutuals under study.

In Chap. 4, “Governance Structures in Customer-Owned Hybrid Organizations: Interpreting Democracy in Mutual Insurance Companies”, Tiziana Sardiello, Susanna Alexius and Staffan Furusten analyze variation in how hybrids organize themselves and discuss why mechanisms for institutionalization are not always in place. The authors compare how democracy is expressed and how the ownership governance system is organized in two Swedish insurance companies with a long history—*Folksam*, which has always been a mutual, and *Skandia*, which only recently became one. Departing from imprinting theory, the authors suggest that institutional conditions at the time of their establishment as mutuals have imprinted governance practices in these mutuals that persist beyond the initial founding phase.

In Chap. 5, “Having it Both Ways: Managing Contested Market Money in a Civil Society Organization”, Ola Segnestam Larsson and Susanna Alexius deal with the general issue of how hybridity in general and contested money in particular can be managed by hybrid organizations. The authors draw on a longitudinal case study of IOGT-NTO, a Swedish temperance association that raises most of its income through its own market-based lottery. Weighing the benefits of controlling the lottery



against the legitimacy risks related to being responsible for its operations (in light of risks of gambling addiction), IOGT-NTO *portrays* the lottery as an actor, a firm of its own. However, in reality, the lottery is a department of the association. Following this strategy, the organization seeks to have it both ways.

In Chap. 6, “Hybridity as Fluid Identity in the Organization of Associations”, Anna Fyrberg Yngfalk and Carl Yngfalk address the issue of hybridity in non-profit organizations formally run as associations by examining how organizational legitimacy is managed under the marketization of civil society. The authors find that Friskis and Sveltis, a large Swedish association offering exercise and fitness training services since 1978, has managed to construct an organizational identity in which commercial and civil society values constitute a fluidness that allows the organization to maintain and incorporate multiple organizational identities. The two organizational strategies of adaptation and activation help to explain how the association has been able to utilize its hybridity in order to maintain legitimacy in both the marketplace and civil society. As argued by the authors, it emerges as essential for this organization to refer to its strong mission to “do good”, which, in turn, facilitates new development and allows for the flexible and fluid identity of the organization.

In Chap. 7, “The Importance of the Owner Relationship in Shaping Hybrid Organizations”, Anna Thomasson analyzes the relationship between owners and hybrid organizations, with a focus on public-private hybrid constellations and corporations owned by local governments. The main takeaway from the comparative case analysis is that two dimensions, one formal and one informal, define the relationship between the owners and their companies. While the formal relationship (as defined by legal framework and other regulations) mainly reflects market values, the informal dimension proves to be crucial in order to protect the democratic values of these public enterprises.

In Chap. 8, “Logics and Practices of Board Appointments in Hybrid Organizations: The Case of Swedish State-Owned Enterprises”, Susanna Alexius, Jenny Cisneros Örnberg and Giuseppe Grossi offer insight into the governance of Swedish SOEs performed by civil servants in cooperation with the minister and state secretary at the Ministry of Enterprise

and Innovation. The authors take particular interest in the practices and thoughts of the (few but powerful) civil servants who work with board appointment. A closer look into the actual day-to-day practices shows us that negotiating and aligning the political logic and the commercial logic at stake is described as key to the headhunters' work. These processes are, in turn, based on conditioned trust between civil servants and politicians.

In Chap. 9, "Hybrid Organizations in the Italian Regional Context: A Case Study from the Cultural Heritage Industry", Paolo Canonico, Mario Pezzillo Iacono, Marcello Martinez, Gianluigi Mangia and Stefano Consiglio analyze *Probec*, a regional firm with a cultural heritage mission operating in one of Italy's southern regions. This regionally owned firm offers a peculiar challenge for management, as almost everything the company does requires hiring external providers on contract, making *Probec* a sort of mediator between cultural values of national interest and commercial service providers. The authors conclude that given the inter-relationship between preservation- and enhancement-related activities and the mutual interdependence of stakeholders, heritage management remains an area in which hybrid forms of governance and management might be particularly fruitful.

In Chap. 10, "Problematic Outcomes of Organization Hybridity: The Case of Samhall", Mats Jutterström highlights the practical dilemmas that may occur when different institutional logics are combined within an organization. Studying the case of Samhall, an SOE aimed at offering employments to people with different kinds of disabilities, Jutterström describes three elemental outcomes of hybridity, undermining the overall support of the individuals the organization was established to help. The outcomes concern the (1) working environment, (2) level of support and (3) selection of employees. The chapter ends with a discussion of the roots of the described dilemmas, as well as of how the negative effects of hybridity may be mitigated.

In Chap. 11, "Governance Implications from a Re-Hybridizing Agricultural Co-Operative", Stefan Einarsson and Filip Wijkström seek to advance the scholarly debate on organizational governance by analyzing interviews with members and elected officials in a sizeable Swedish forestry cooperative, *Södra*. The authors argue that the market imperative

of economies of scale in the agricultural industry has led to increasingly larger farms and increasingly larger and more centralized agricultural businesses. This, in turn, has diminished the number of members that are to govern the businesses in these cooperatives, as well as the size and the complexity of the governance task. The authors conclude that this development indicates a rebalancing of the hybrid character of the cooperative, with clear governance implications.

In Chap. 12, “‘Becoming a co-operative?’: Emergent Identity and Governance Struggles in the Context of Institutional Ambiguity in a Citizen-Led Health-Care Cooperative”, Mirjam D. Werner and Sylke F. Jellema explore the emergence of the Dutch citizen-led health-care cooperative Texel Samen Beter (TSB), founded in 2014 by a group of concerned citizens on the island of Texel, Netherlands, to improve health-care services. Tracing how the TSB board engaged in a number of activities to give meaning to the cooperative’s emergent identity, the authors analyze how TSB transformed from an abstract idea to “becoming” a fully functioning cooperative. Highlighting challenges such as internal ambiguity and a lack of consensus about what TSB should stand for as well as attempts by external actors to take advantage of the uncertain institutional landscape and impose their own ideas on the budding cooperative, the TSB board managed to navigate the institutional complexity and establish itself as a legitimate actor in the Dutch health-care sector. The chapter ends in a discussion of the importance of understanding the process by which an identity emerges within hybrid organizations like cooperatives.

In Chap. 13, “Hybrid Challenges in Times of Changing Institutional Conditions: The Rise and Fall of *The Natural Step* as a Multivocal Bridge Builder”, Susanna Alexius and Staffan Furusten report on the life story of a hybrid organization founded in 1989 in order to foster sustainability in society as a whole and that, initially, in the early 1990s, served as a successful bridge builder across the fields of science, politics and business. Staying in this position was, however, not without its challenges. The chapter contributes to discussions on management in hybrid organizations by highlighting when and why hybrids face particular challenges and how managers struggle to deal with them. Over time, *The Natural Step* gradually became de-hybridized into a management consultancy.

The chapter concludes with a section on dilemmas faced by hybrid managers in cultivating and maintaining a hybrid identity over long periods of time.

In Chap. 14, “Revenue Diversification in Different Institutional Environments: Financing and Governing the Swedish Art Promotion Movement, 1947–2017”, Martin Gustavsson follows the historical development of the popular movement for Art Promotion (FKF) from its establishment in 1947 with the mission to promote the spread of fine art in Sweden. Gustavsson analyzes how the organization managed to cultivate the original mission under shifting institutional conditions, focusing, in particular, on the impact of different types of funding. As the organization was deeply rooted in civil society and public spheres, becoming too dependent on market-generated income in later years threatened its “Bildung” mission and, eventually, mission drift and legitimacy crisis threatened the future of this hybrid organization.

In Chap. 15, “A Legislator’s Inability to Legislate Different Species: A Swedish Case Study Concerning Mutual Insurance Companies”, Jan Andersson contributes with a critical analysis of the legislation for the Swedish insurance industry in general and mutual insurance companies in particular. He investigates whether the legislation differs to the general regulation of insurance companies and to what extent a regulatory discrepancy creates unwanted transaction costs and a blurred playing field for mutual insurance companies. The chapter ends with a short note on whether an alternative legislative scenario including a “separate law regime” and/or a “choice of law regime” could possibly benefit mutual insurance companies.

In Chap. 16, “New International Rules for Corporate Governance and the Roles of Management and Boards of Directors”, Alexander R. Beshar and Staffan Furusten discuss how different insurance companies have adopted and interpreted Sweden’s transposition of the EU directive for corporate governance, Solvency II, launched in 2016. Solvency II is aimed at protecting the policyholders, that is, insurance consumers, as well as to stabilize the insurance market. The authors show that the directive does not dictate how it should be transposed, and that it therefore is translated in accordance to member state’s current corporate governance system. The chapter concludes that there are contravening conceptions within the

insurance industry on how the Solvency II should be transposed and what consequences it brings to the roles of management and boards and division of workload between these roles in mutual enterprises.

Finally, in Chap. 17, “Managing Hybrid Organizations”, Staffan Furusten and Susanna Alexius draw on the theoretical frame developed in the introductory chapter and discuss some core and generic characteristics from the different cases in the book. Three dilemmas in managing hybrid organization are identified: (1) financing a social mission and the risk of mission drift, (2) overlapping roles among key stakeholders and the risk of empty governance structures and (3) modernizing while cherishing the legacy of a constitutional hybrid. The authors argue that managing organizations where the hybrid identity is preserved over time is a matter of multivocality, that is, a state where different categories of stakeholders are involved in shared, although sometimes parallel, conversations. The chapter concludes that the establishment of a state of multivocal conversations can be strengthened by managerial and governance skills in improvisations and versatility.

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# 2

## Variations and Dynamics of Hybridity in Different Types of Hybrid Organizations

Staffan Furusten and Sven-Olof Junker

### 2.1 Introduction

In this chapter, we explore the general characteristics of three types of hybrid organizations: *business cooperatives*, *mutual companies* and *state-owned enterprises*. They all operate in markets and their main financial source is sales, but they also all have extensive experience and a long history of taking social responsibility of different sorts. The examples in the study are constitutional hybrids with a long history, which means that they have managed to survive as market actors while keeping their original organizational form. In this chapter, we explore to what extent this also means that their original social mission still guides their respective affairs and whether, in this regard, there are similarities or differences between the three forms of hybrids in focus. The intention here is to show possible variations in and the dynamics of hybridity by analyzing

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how different hybrid organizations refer to their organizational legacy in contemporary management texts. The chapter ends with a discussion of the relations between institutional conditions in different contexts and the emergence of the kind of hybrid organizations explored here.

*First*, we begin with a brief background of the hybrid organizations with a directly stated social mission studied. We account for how these organizations can be seen as predecessors of modern democracy and the welfare state in Sweden and demonstrate a variety of ways that organizational legacy is used in managerial texts about these organizations. *Second*, we elaborate on when and to what degree organizational legacy is used by different categories of hybrid organizations and the extent to which this can be traced to specific institutional conditions. *Third*, we close by summing up the main conclusions.

## 2.2 The Dynamics of Hybrid Organization and Contexts of Varying Institutional Complexity

In the first chapter of the book, organizational hybridity was discussed in general terms. The main arguments presented were that hybridity is neither new for ‘ordinary’ organizations nor valid only for the type of organizations referred to in the emerging literature on the topic as the ‘social enterprise.’ In fact, as also argued by Doherty et al. (2014), most studies of hybrid organizations have had a descriptive purpose and have concentrated on defining the characteristics of hybrid organizations. There are, however, interesting differences between different types of hybrid organization that are worthy of much more analysis and exploration.

To further our understanding of the dynamics of hybrid organization, we have studied 15 ‘old’ business cooperatives, mutual companies and state-owned enterprises (5 in each category), all based in Sweden. The study is based on various types of data, and the overall approach is qualitative and explorative (e.g. Stebbins 2001). The principal set of data comprehends public documentation from the cooperative, mutual and state-owned companies with a social mission studied in the form of annual reports, sustainability reports, websites and official statistics.

All of the analyzed documents were published in the first half of 2016. As reference material, we have also made use of open-ended interviews and ethnographic field notes from approximately 30 formal and informal meetings with managers in these hybrid organizations and with interest associations representing business cooperatives and civil society corporations between 2014 and 2017. The chapter builds on observations from and of the organizations presented in Table 2.1.

Although we divide the analyzed hybrids into the three broad subcategories of corporations, the categories are not necessarily uniform. Rather, the selection of examples is based on the fact that we expect them to represent different groups within these subcategories. Hence, they have been selected in an explorative mode to represent variations between different types of hybrid organizations. The annual reports and sustainability reports for 2015 for all of the selected organizations were coded using NVivo software based on the three aspects of historical legacy described earlier. Managerial texts presented on the selected organizations' websites have also been included as empirical data and have also been coded. In total, the empirical dataset corresponds to approximately 1000 A4 pages of text.

### **2.2.1 Historical Background: Hybrid Organizations and the Rise of the Modern Welfare State**

Sweden is normally described as a strong democracy with a relatively large public sector that in many respects focuses on improving the agency and welfare of its citizens (Premfors 1998). However, such a strong state has only existed since about the 1950s. Looking further back in time, like most other Western countries Sweden was a poor and rural country. At the turn of the twentieth century, the country was run by a plutocratic government based on voting rights for only one-fifth of the male citizens and women's suffrage still decades away. As in most other European states at that time, growing urbanization and industrialization had given rise to a number of critical societal challenges that could not be handled by either the existing and at that time weak state or the existing businesses and NGOs.

**Table 2.1** Brief background of empirical selection in the study

Company	Industry	Founding year	Background
Business cooperatives			
Arla	Dairy	1880	Started as association of farmer cooperatives to organize milk sales
Coop	Grocery retail	1889	Initiated to coordinate the logistics and pricing of food products
Fonus	Funeral services	1969	Formed as an amalgamation of funeral associations to also produce coffins
HSB	Housing	1923	Initiated to address growing urbanization and construct inexpensive housing
Lantmännen	Agriculture	1905	Formed as a national association of farmers to coordinate quality, purchase prices and transportation
Mutual companies			
Alecta	Insurance	1917	Started to provide private sector employees secure pension savings
Bliwa	Group insurance	1948	Formed by 12 life insurance companies to hamper public regulation
Folksam	Insurance	1908	Initiated to provide low-income workers with insurance options
Länsförsäkringar	Banking and insurance	1801	Mutual insurance concerns started in different regions during the nineteenth century, with national reconciliation in 1917
Skandia	Banking and insurance	1855	Founded to provide citizens with a mixed portfolio of insurance offerings
State-owned enterprises			
Samhall	Recruitment	1980	Established to coordinate a number of municipal initiatives to provide work to people with functional impairments
SBAB	Banking	1985	Founded to finance and manage public housing loans
SJ	Rail transport	1856	Established as public agency and state railway operator in parts of the country
Systembolaget	Liquor retail	1955	Established to limit alcohol's negative impacts on society
Vattenfall	Energy	1909	Initiated as the Royal Power Board to provide electricity at competitive prices

Given the context at the time, 'going collective' was often considered the right and only way forward. Many local cooperative consumer associations were founded in order to improve the living conditions of the impoverished and socially vulnerable by providing higher quality food at lower prices. By the turn of the twentieth century, some of these organizations undertook a joint effort to establish a national federation encompassing all of the local consumer associations, now called the Swedish Cooperative Union (KF, which later formed Coop). Since this federation's mission was to improve living conditions for its members and insurance had been out of reach for many of its members, the organization further initiated the establishment of Folksam, a mutually owned insurance company, for its members in 1908.<sup>1</sup> The already-existing actors at the time, including private firms in the market and public organizations, did not have the tools to tackle these challenges.

Both business cooperatives and mutually owned companies are normally grouped under the concept of 'collective organization' (Michie et al. 2017). There are nevertheless a number of smaller differences worth elaborating upon before moving forward in the analysis. Most importantly, ownership structures can differ between the two forms. The owners of cooperatives are either producers or the consumers themselves. Most consumer cooperatives were historically established for what one can call 'practical' reasons. For instance, they helped to coordinate the distribution of goods and to set up shops and supply chains, all of which helped to suppress production monopolies and cartels. Goods thereby became cheaper and the benefits of membership were obvious. Producer cooperatives have, similarly, also typically been founded to improve quality and achieve economies of scale among many producers. One of the cooperatives in our study, Lantmännen, is a producer cooperative for farmers founded in 1905. The cooperative currently communicates that this was the first initiative that allowed for cooperation between farmers from different regions in the country. The claimed purpose was to increase product quality, decrease purchasing prices and transportation costs and create a platform for the exchange of knowledge and experience among farmers.

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<sup>1</sup> See Chaps. 3 and 4 in this volume for more details about the establishment of Folksam.

A mutually owned company, on the other hand, is owned by its customers. Once you sign up for and purchase an insurance issued by a mutual company, for example, you also become one of its owners. In our interviews with and observations of managers at Folksam, a large mutual insurance company, the purpose for this organizational form was expressed as being to provide ‘utility to the owners’ rather than dividends, as is the purpose of listed companies. A representative of Skandia, another company with a long history in the insurance industry, once a limited company but which recently (2014) became a mutual organization, described its vision as one of helping to facilitate a ‘richer life for the community of owners,’ and not necessarily always in terms of monetary benefits. In their role as mutual insurance companies, both Länsförsäkringar and Skandia adhere to regulations that mandate specific levels of risk capital. Any accumulated surplus above this limit, however, can be used for the owners/customers, to help to give them a richer life or however the companies choose to safeguard their owners/customers interests in the long term in a sustainable way (Alexius et al. 2017).

As individual organizations and as groups of organizations, cooperatives and mutual companies are sometimes categorized as political actors, in the sense that they are based on ideological claims for a better society. They exist to improve and to ‘do good.’ Much more recently (in 2017), the interest organization Co-operatives Sweden was formed to disseminate knowledge and to help to modernize the image of the cooperative movement in Sweden. The Co-operatives Sweden organization undeniably features the political objectives of the cooperative movement by communicating that ‘democracy, sustainability, longevity, involvement and profitability will permeate the work at all times.’<sup>2</sup> As political actors, they can be viewed as complementing the state, municipalities and counties in bringing services and benefits to citizens.

Correspondingly, state-owned enterprises often integrate a strong political position into their operations. For instance, the Swedish Local Government Act stipulates that companies owned by either municipalities or counties must serve the public interest without the primary purpose of making a profit. Many of the established state-owned enterprises

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<sup>2</sup> svenskkooperation.se.

also have clearly stated social mission, and those with distinctly profit-making objectives have come under scrutiny of late for making political trade-offs in their operations (Alexius and Cisneros Örnberg 2015). One such example in our study is the state-owned enterprise Systembolaget, which was founded in 1955 as a direct consequence of a government monopoly on the retail sale (apart from licensed restaurants and bars) of alcoholic beverages in the country. Systembolaget was moreover instituted with the expressed social mission of controlling alcohol consumption in order to reduce negative health impacts on the population. Another example is state-owned energy corporation Vattenfall, which is also one of Europe's major retailers of electricity and heat, whose published reports communicate that it has played an important part in the building of a prosperous and modern Sweden. For most of the twentieth century, Vattenfall's operations were actually managed by a governmental agency. Its political mission of developing the country's hydroelectric power, that is, to supply industry and citizens with inexpensive and sustainably produced electricity, nonetheless remains at the heart of the company's public profile.

These short narratives are used to demonstrate that business cooperatives, mutual companies and state-owned corporations all operate in the market sphere as corporations, while they actually exist (and were founded) to serve stakeholders rather than shareholders and, as such, qualify as hybrid organizations in the generic meaning. Specifically, in the case of cooperatives, the stakeholders being served are members of the association, meaning that the companies also operate in the civic sphere. Moreover, since they all cite some form of public benefit as their core mission, they can also be seen as operating in the public sphere. From an organizational perspective, this means that these types of hybrid organizations per se pool competing institutional logics, such as the logics of the for-profit corporation and the concept-based association (as in the case of the business cooperative owned by its members), for the sake of realizing public benefit. The blend of logics is perhaps most striking in the case of state-owned enterprises, since the logics of political control and civic value are mixed with the logic of profit-making. In this respect, we argue that the ability to handle mixed logics in general management has been the goal from the outset for the hybrid organizations examined in this



chapter. These circumstances should spur researchers to scrutinize how managers handle this hybridity and the role of narratives of organizational legacy for gaining legitimacy.

### 2.2.2 Role of Organizational Legacy in the Hybrid Organizations Examined<sup>3</sup>

We find that the social mission still serves as a core value in the public reporting of the majority of the analyzed mutually and cooperatively owned corporations. In annual reports, on websites and in ethical codes of conduct, as well as in the sustainability reports we have studied, a narrative of organizational legacy often receives top billing. Organizational legacy is also frequently cited in presentations, expressed verbally in meetings and appears in public credentials. These narratives are used to explain why the companies were established and which social problems they have attempted to solve, as well as to account for new social challenges these cooperatives and mutuals have taken on along their path of development.

We observe that organizational legacy occupies a central role in managers' efforts to highlight social responsibilities. Going 'back to one's roots,' for instance, seems to be a core strategy for communicating corporate social responsibility (CSR). The large cooperative retail firm Coop, for instance, claims to have had a long-term commitment to sustainable development, listing projects that date back almost 100 years as a way of expressing that the company's goals remain intact. Another cooperative, housing firm HSB, communicates how it has launched a program to develop affordable and efficient apartments to celebrate its approaching 100th birthday. Likewise, cooperative funeral agency Fonus identifies the

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<sup>3</sup>Our analysis of the empirical data in this section focuses on the three aspects of organizational legacy presented in public communications: (1) *Organizational legacy as a basis for legitimacy*, that is, how the examined organizations use historical accounts as motives and justifications of current operations as well as strategic decisions and goals, (2) *The social mission as input to historical narratives*, that is, the extent to which descriptions of the organization's original social motives are used as elements of communicated narratives and (3) *Handling of CSR demands using references to the past*, that is, how contemporary institutional demands on business corporations in the Western world are handled with respect to the narratives on organizational legacy presented.

handling of social challenges as its chief purpose since its establishment in 1969. The main purpose of its business, Fonus claims, is still to act as a ‘counterforce’ to economic injustices and to provide everyone access to what the company calls an ‘honorable memorial.’

Profiling the organization as a predecessor of the welfare state also seems to be a central part of historical narratives communicated by some of the mutual companies studied. One insurance company (Alecta) claims to be one of the ‘architects’ of the Swedish occupational pension plan system. As reported in its annual report for 2015, since its start in 1917, Alecta has been ‘bold and far-sighted’ and therefore ‘a core part of the construction of a more modern and safer Sweden.’ Folksam, a mutual insurance company and one of Alecta’s competitors, emphasizes in its annual report and its historical legacy the fact that, since its establishment, it has unceasingly sought to offer insurance to people facing challenging social circumstances and marginalization. The insurance company Bliwa, owned mainly by trade unions and other mutual companies, does not communicate its social mission as distinctly. Bliwa claims instead that its goal of promoting healthy working environments for its owners has been its main mission since its start in 1948.

Organizational legacy is not as extensively communicated by the state-owned companies studied. For example, SBAB, a state-owned bank, maintains quite a low profile regarding its historical social mission.<sup>4</sup> Neither does major Swedish train operator SJ mention its historical roots (from 1856) in its recent financial and sustainability reports. Rather, these state-owned enterprises to a larger extent connect their social missions to current government policies. For instance, SJ states that it acts as a ‘critical voice in society’ by engaging in constructive dialogues with stakeholders to raise awareness about adopted climate goals and the CO<sub>2</sub> emissions of different forms of transport.

State-owned Systembolaget, on the other hand, claims that the impetus for its creation in 1955, that is, to sell alcohol without a focus on profits, remains a top priority for the company. One recent decision that seeks to enforce this legacy is that customers going through the check-out at Systembolaget liquor stores now encounter a sign asking, ‘Hey, did you

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<sup>4</sup>For more details about SBAB, see Strandqvist (2018).

change your mind?’ next to a cart where they can place bottles they decide not to buy. The company’s official reports feature quotes from executives and representatives stating that they are proud of the company’s social accomplishments.

The organizational legacy of the public enterprise Samhall is framed in a slightly different manner.<sup>5</sup> In 1980, the state decided to integrate several municipal companies into one national organization with regional offices. Cost-effectiveness and corporate governance appear to have been the major goals for integration and reforms since then, but they have been undertaken without changing the company’s primary mission to create stimulating jobs for people with functional impairments that reduce their capacity to work. The company’s vision, as presented in annual reports, is to contribute to a society where everyone in Sweden can function as ‘an asset’ in the labor market.

In sum, a hybrid’s organizational legacy with regard to its orientation, core mission and length of service seems to be a crucial aspect of their public communications and for promoting the legitimacy of their current operations. In particular, most of the cooperatives and mutual companies seem to exhibit pride in their heritage and founding impetus to solve social problems by bringing together, promoting, representing and defending their main stakeholders. The state-owned enterprises examined frequently also highlight the historical rationale. However, their organizational legacy is positioned as neither a hindrance nor a boon when it comes to pursuing desired outcomes. Rather, managing the organization as a limited company is often depicted as a cost-effective way of fulfilling the adopted political goals of the organization (Alexius and Cisneros Örnberg 2015).

### 2.2.3 To Be, or Not To Be Different, That Is the Question

So far, we conclude that managers in the organizations examined are able to leverage the organization’s legacy in an attempt to reach current goals.

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<sup>5</sup> See Chap. 10 in this volume for more details about Samhall.

Research indicates that historical aspects of organizations can further be used to produce a profile of ‘authenticity’ for external audiences (Foster et al. 2017). Our study indicates that the examined cooperative and mutual companies frequently point out that they are fundamentally ‘different’ from regular companies. In many cases, this ‘authenticity’ is framed as a justification for sidestepping a commitment to conventional business rationale. Characterizing the companies as different from competing companies seems to grant some latitude for unconventional maneuvers and actions. This contrasts with what we see regarding the strategic positioning of state-owned enterprises, where the hybrids studied commonly aim to describe themselves in terms of ‘ordinary’ firms.

Many of the cooperative and mutual companies have enacted a primarily stakeholder-focused approach to operations, in contrast to the shareholder focus normally associated with profit-making companies. Several of the cooperative companies specifically voice their intention to take responsibility for the entire value chain, adopting a more comprehensive approach than normally adopted by corporations. In one of the cooperatives, a stakeholder perspective focusing on operating responsibly across the value chain is also combined with a broader concept of sustainable consumption, categorized as a foundational element of achieving the goal of sustainable development. Alecta, one of the mutual insurance companies, calls itself a ‘different’ pension firm, citing the following reasoning: ‘We do not advertise. [...] We do not sell any funds, we pay no commissions, and we have no fancy office networks.’ Managers of the company claim that the primary focus of the company is optimal protection of the customer/owners’ interests in maximizing pensions.

This stakeholder perspective is also used to question the centrality of profit as the chief organizational goal. The annual reports of several of the mutuals note that the basic premise of insurance companies is to reduce costs by sharing risk. However, Folksam states: ‘We also share profits.’ This is therefore not a wholesale rejection of profit, but rather a redefinition of the rationale behind profit as merely a matter of cost efficiency and economies of scale. Moreover, some hybrids in the study are portrayed as being different because they are more open and democratic. Fonus, the cooperative funeral agency whose members are nonprofit associations, for instance, asserts its organizational authenticity primarily

by referring to democratic values. It states that all of the members of the organization have the power to elect representatives who in turn make essential decisions for company operations. This is clearly authentic compared to shareholder-focused limited companies.

In the companies' official reporting, such differences are often profiled as advantages in terms of conducting profitable business while simultaneously taking on societal challenges, in short, adopting CSR. This authentic and unique class of organization has some leeway when it comes to jettisoning some of the institutional demands normally associated with traditional companies. This helps them to justify legacy as something essential for successfully carrying out the role of change agent in the march toward economic and social sustainability. Nevertheless, finding the right balance is not always easy. Our study indicates that mutual companies, and even more particularly cooperatives, sometimes face problems in raising financial capital. Moderate profit expectations possibly decrease the interest of investors. Instead of relying on organic growth, Arla, a food-producing farmer-owned cooperative, devotes a large portion of annual report to analyzing the problem of raising capital for global expansion. Based on this problem, the cooperative has decided to issue a new type of financial bond aimed at institutional investors. This decision is characterized as a 'substantial shift' toward market logics in the cooperative business and hence toward becoming less different from the ideal-typical firm.

The examined state-owned enterprises portray themselves more as organizationally similar to progressive business firms. In its public communications, energy company Vattenfall, for example, emphasizes that it aims to be a leader in sustainable production by, among other things, referring to its commitment to becoming climate neutral by 2050. This long-term future perspective signals two sides of the company's narrative: first, that the firm's production is currently not fully sustainable and, second, that changes in external governmental policies have implied new strategies for the company. Vattenfall's annual report refers to the UN climate agreement (2015 Paris Agreement) as 'fundamental for establishing the political framework needed for energy systems of the future.' This viewpoint corresponds well with the typical position of companies: that the state is responsible for designing regulatory institutions, to which

companies adapt their structures and strategies. In this sense, the government, not the companies per se, takes the main responsibility for societal operations.

Profits also occupy a more central position in the state-owned enterprises in our study. Some acknowledge that some of the profits are reinvested in the company, but most state-owned enterprises are instructed by government directives to raise profits for the benefit of the state. It is, however, also claimed that ‘active sustainability measures do not hinder business skills.’<sup>6</sup> Despite claims communicated by state-owned Systembolaget, that the company is largely disassociated from profits, the annual report nevertheless states that the company aims to achieve ‘cost-efficiency and business-mindedness.’ Sweden’s largest train operator SJ similarly presents positive reports on increased operating profits and margins, while signaling the good it does for society, hence implying that profit and CSR go hand in hand. Thus, we observe that these state-owned enterprises have specific goals set by the state (the owner) of providing a source of income for the state (C.f. Alexius and Cisneros Örnberg 2015).

It would seem that the respective missions and institutional demands associated with the three categories of hybrid organization analyzed rest in part on different institutional logics. They are all corporations, which means that they are expected to adhere to the same standards of behavior and best practices as traditional companies that generate profit, to be autonomous and to focus on strategy (Bromley and Meyer 2015). However, the mutual companies and cooperatives also draw on the logics of the civil association, since they are based on the idea of a shared interest that only accrues to the benefit of the members. The cooperative firm is clearer in this regard in that, in order to become a member, customers or producers must make an active choice. In cooperative firms, there is no formal connection between being a member and being a customer. Hence, you can be a cooperative customer without being a member, though you may not be able to access the benefits available to members. Mutual companies, on the other hand, also focus on the needs of and

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<sup>6</sup> See Chap. 8 in this volume for more details about the role of the government in corporate governance of state-owned enterprises.

benefits to not only current owners but also future owners. For insurance companies, this point is crucial, as they must retain a sufficient number of owners at all times, so that if a disaster or other event that triggers a marshaling of resources to support their policyholders transpires, they are financially capable of doing so.

In a way, the same applies to the state-owned enterprises, which are set up to adopt long-term, sustainable responsibility for core societal functions. The organizational logics under which state-owned enterprises operate, however, are mainly designed in following with a typical profit-making corporation. This type of hybrid organization is part of the state as a complex organization, which should require adjustment to the institutional demands of cost-effectiveness and future orientation required of the government. We therefore conclude that the issue of authenticity is handled differently by the state-owned enterprises, on one hand, and the cooperative and mutual companies studied, on the other hand.

The stakeholder perspective holds a central position in the reporting of the cooperative and mutual companies studied. Strictly speaking, these types of hybrids seem to be dependent on positioning the organization as authentic and unique for gaining legitimacy. State-owned enterprises partly display the opposite pattern, where not all past events and actions are incorporated in the selection of narratives of organizational legacy or justified in the public reporting. In some cases, legacy can be treated as 'an enemy' in the management of a firm (March 1976). Studies also indicate that the ability to forget can sometimes be a more useful strategy than the strategy of acknowledging the past (Mena et al. 2016). An intentional changing or erasing of earlier communicated stories of organizational legacy can be accomplished by a reframing of the organizational profile and the introduction of new competing interpretations of what the organization is and how it should act (Suddaby and Foster 2016). Our study also concludes that the studied state-owned enterprises that have adopted values that conflict with an economic rationale rarely spell these out in formal reporting. In this respect, the framing of this category of hybrid organization corresponds more closely to the ideal-typical form of a profit-making company.

## 2.3 Discussion: Institutional Conditions and Dynamics of Hybrid Organization

We have shown how different hybrid organizations use organizational legacy as a management device for building the legitimacy of current decisions and operations. Although it is not unusual that organizations with a long life refer to their history in order to build and maintain their image as reliable counterparts and to cultivate legitimacy, hybrid organizations' use of organizational legacy seems to be of particular strategic importance for justifying their position as different and highlighting that they are serious about their social mission. However, in comparing the three categories of hybrid organizations discussed in this chapter—mutual companies, business cooperatives and state-owned firms—we find both similarities and differences in how they link their past with their present and future.

It is clear that mutual companies and cooperatives are almost identical with respect to how they profile themselves in public reporting and the weight organizational legacy is given in central managerial texts. Both of these categories of hybrids blur the concepts of owner and customer. The main difference between them is that the mutual company's owners are exclusively its current customers. In cooperatives, the owners are members, but nonmembers can also be customers. This blurring is roughly the opposite to the strategy pursued in a typical limited corporation, where legitimate structure and organization depend instead on maintaining strict formal boundaries between shareholders and customers, although in practice the two groups are most likely blended.

The blurred definition of owner/customer in cooperative and mutual companies sheds light on what the struggle to attain legitimacy looks like in these hybrid organizations. Depending on an organization's degree of awareness and comfort in being a hybrid, it can respond in different ways. If there is widespread awareness within the hybrid organization that it is different, the organization does not have to adapt to either one logic or the other in a strictly binary fashion. Instead, it can emphasize the argument that the pressure to adapt does not apply to that organization, precisely because it is 'different.' Due to their history and references to their



legacy, this is also something hybrids are able to do with high degree of authenticity.

We also find that organizational legacy is frequently used in cooperative and mutual companies to ‘remind’ external audiences of the motives of their institutional difference. This fits well with strategies of profiling organizational legacy in public communications, since these organizations were founded with a distinct social mission. An organization’s historical claims interact well with the organization’s response to current institutional expectations with regard to adopting CSR. Hence, looking in the rearview mirror to rediscover the social responsibility embedded in the social hybrid becomes a fruitful strategy for justifying current and future operations, as well as for building and enforcing legitimacy. This means that cooperative and mutual companies as hybrid organization categories can adjust to contemporary expectations of social responsibility without any major organizational reforms. Instead, the organizational legacy itself serves to justify the organization’s permanency and to strengthen the organization’s authenticity profile. This implies more flexibility in the use of legacy for legitimacy purposes in cooperative and mutual companies, compared to state-owned enterprises, as we discuss below.

State-owned enterprises do not normally describe themselves as having active owners. Instead, they are often accused of having weak owners who do not take an ownership responsibility (Sjöstrand and Hammarkvist 2012). This is not surprising because, although citizens are the indirect owners of these enterprises, owner performance is governed by particular social circumstances. As citizens, we are members of various democratic communities, such as municipalities, counties and states. We elect people to represent our interests in local, regional and national parliaments via public elections. It is at this level that corporate governance of state-owned enterprises is executed. This means that for citizens—the true owners of state-owned corporations—there is a critical disconnect between being an owner and executing governance.

In contrast to cooperative and mutual companies, state-owned corporations seem to adopt a strict division between the concepts of owner and stakeholder. Although they are indirectly owned by and exist on behalf of citizens to provide social benefit and/or revenue, they customarily profile

themselves in public reporting as having the government as main shareholder and as being more or less fully comparable to the typical limited corporation with respect to how they manage operations (Rainey and Chun 2005). This strategy disconnects citizens as their main source of legitimacy for state-owned enterprises, at the same time as the hybrid organizations need to become more attentive to the current order of governmental affairs and policymaking. Such a setting helps to explain why organizational legacy is less frequently used as strategy for building legitimacy in state-owned corporations. Due to the fact that they are state-owned, they are also the target of a high level of media scrutiny, often in more direct ways than other companies.

State-owned enterprises are also part of the political system and, as such, it is not customary to counteract the expressed preferences of that system. Neither their establishment nor their existence is voluntary as is the case with the other categories of hybrid organization examined. Hybridity in state-owned enterprises has in this respect a distinctive substance by being decided by order of state government. Consequently, they are not required to justify their difference to ideal-typical corporations to the same extent as cooperative and mutual companies. State-owned enterprises are therefore more likely to practice the strategy of accepting their situation. Still, the fact that they exist to serve society grants them the legitimacy to prioritize actions that strengthen sustainability and social responsibility.

### **2.3.1 Observed Dynamics of Hybrid Organization**

The examples of the three general categories of hybrid organizations (business cooperatives, mutual company and state-owned enterprises) discussed in this chapter all operate in the institutional sphere of the market. Thus, they all sell services or products to customers, meaning that their main financial source is sales. The organizations are self-financed and thereby fully dependent on sales revenues to continue their operations. However, as illustrated in Table 2.1 and discussed below, our study has noted some main differences in their organizational forms, ownership, purposes and main stakeholders.

1. Although they all act in markets in the role of companies, cooperatives, mutual companies and state-owned enterprises are formally established with different organizational forms. State-owned enterprises are all formally joint-stock companies and, as such, are supposed to generate a return on investment for their shareholders, which in the cases studied in this chapter is the Swedish state. The organizational forms of both cooperative and mutual companies, on the other hand, mainly resemble the association. While cooperatives have the clearest structure in this regard since they are owned by members, mutual companies are more complex since ownership is directly related to who becomes a customer. Still, all of the hybrids studied in the chapter act as companies in markets, which also means that their performance is most likely to be assessed according to the institutional logic of the corporation.
2. Variations in ownership structure are likely to create different institutional conditions for different types of hybrids. Compared to business cooperatives and mutual companies, the owner of state-owned enterprises is always another organization (the state or local government) that potentially has strong action rationality (Brunsson 1994). In some cases, mutuals and cooperatives also have other organizations as owners, but in such cases, it is most likely that these are also organizations that very clearly represent the members. Member organizations of the insurance company Bliwa, for instance, typically purchase a group insurance for their respective employees. But in state-owned enterprises, the government has a more pronounced role as owner and can, for example, decide to list the company on the stock market, to sell off part of the company to private investors or to close down the company or issue it directives regarding what it should or should not do. Moreover, state-owned enterprises are also established as a means of accomplishing specific political decisions and objectives. Thus, these hybrid organizations are much more dependent on the state as owner than cooperatives and mutual companies are on their respective owners, where the ownership is spread out to individuals or to other associations with individuals as members. Thus, in the latter types of hybrids, owners are less likely to have strong preferences of how the organizations should be structured and operated. Yet another property

that distinguishes state-owned enterprises from the other hybrid organizations studied is that there are distinct limits on how public enterprises are established. Only governments can buy or establish a state-owned enterprise, while anyone can take the initiative to establish a cooperative or a mutual company. This also has consequences for the multiplicity of institutional demands they are exposed to and institutional conditions that govern what they can do and what they must do.

3. Also, there are differences in institutional conditions in terms of the purposes of the respective hybrid organizations. State-owned enterprises are established by governments to accomplish political goals, and to 'do good' for all citizens, although there can be some variations in the degree to which the operations are politically motivated. The main purpose of mutual companies, on the other hand, is to serve their customers by providing security over longer periods of time. Thus, it is a kind of responsibility they offer to a limited group of people, that is, the customers/owners. The purpose of cooperatives is similar to the latter, where cooperatives are supposed to serve their members first and foremost, but also other customers who have not (yet) chosen to become members.
4. Finally, for all of the examined hybrid organizations, the customer is the core stakeholder, since their operations are mainly financed through sales. However, in terms of the main stakeholder, there are differences. State-owned Samhall, for instance, needs to earn revenues from customers in order to serve their main stakeholder, which is a particular group of citizens—people with disabilities who find it difficult to obtain 'ordinary' jobs. Also, the Swedish monopoly liquor retailer, Systembolaget, has specific groups of citizens as its main stakeholder, namely people with drinking problems and people at risk of ending up with drinking problems, but the company is also supposed to serve its customers by offering high-quality liquor products and professional advice, for example, which wine to pair with a certain dish. This focus on the well-being of groups of vulnerable citizens is akin to charity and how the social enterprise is described in the literature on hybrid organizations (e.g. Battilana and Lee 2014), although Systembolaget differs in its ownership structure and entrepreneurialism since it is politically initiated.

The differences in the four dimensions of hybridity discussed above derive from how the studied hybrid organizations refer to their legacy in public information and in our interviews and observations. In the data analyzed, state-owned enterprises with a social mission bear some resemblance to cooperatives and mutual companies, since public enterprises also emphasize their historical legacy and draw attention to their social mission. They do, however, not produce longer narratives of their history like the cooperatives and the mutuals studied. Other state-owned enterprises, such as energy provider Vattenfall, rail transport company SJ or SBAB bank, are for obvious reasons, as discussed earlier, less keen on referring to their historical legacies. These organizations focus instead on more topical issues, such as sustainability, efficiency and innovation.

## 2.4 Concluding Remarks

One interpretation of why the observed differences are seen is that state-owned enterprises generally operate under less complex institutional conditions than cooperatives and mutuals. We argue that this is evident based on our finding that cooperatives and mutuals emphasize their historical legacy much more, in extensive narratives of their development that dates back in most cases to the time when they were founded in the nineteenth or early twentieth century. This can be understood as cooperatives and mutuals being more exposed to institutional pluralism since they use their legacy systematically to cultivate and nurture their identity. Since this is a shared feature of all of the business cooperatives and mutual companies in our study, it can be understood as demonstrating more flexibility in the handling of organizational legacy. Thus, these organizations have a broader repertoire of actions that are likely to be considered legitimate than state-owned enterprises have.

To sum up our findings in the chapter, we indeed see that organizational legacy plays an important role in managerial texts communicated by hybrid organizations in response to institutional expectations on social responsibility. Our examination indicates that legacy is used in strategic ways, at least by some hybrid organization categories. Business cooperatives and mutual companies, for example, use a relatively large amount of

legacy to justify their existence, current actions and future performance. These history-dependent resources help to stabilize the idea that hybrid organizations are ‘different’ than ordinary firms, with long-standing experience and expertise in assuming social responsibility that to some degree become taken for granted. In these hybrids, the communicated historical narratives form a bridge between an organization’s historical social mission and its current institutional environment. Moreover, the long-term perspective regarding the services they offer also justifies how these organizations can engage in other types of actions and considerations that deviate from organizational stereotypes.

State-owned enterprises are, in comparison, less dependent on historical legacy for building legitimacy in their current institutional environment. Instead, the findings support that they depend more on signals from the state and its government. As part of the political system, this category of hybrid organizations has problems with looking back in order to gain legitimacy. From a government’s perspective, what happened in the past is always worse than today. The political order forces state-owned enterprises to adopt new goals in line with current governmental goals and hence be more forward-looking like ordinary limited corporations, but unlike the other two categories of hybrid organizations studied here.

Overall, different institutional conditions provide space for different types of hybrid organizations. How these organizations use legacy in current management texts is an indication of the rigorousness of the institutional conditions under which they operate.

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# 3

## 'Same same but different': Trust, Confidence and Governance Among Swedish Mutual Insurers

Mats Larsson and Mikael Lönnborg

### 3.1 Introduction

As noted in the introductory chapter, the definition of hybrid organizations is not completely straightforward. Hybrids mix different elements—value systems and action logics—for instance, pursuing social ends at the same as seeking profit for its stakeholders. The hybrid organization can consist of many different features: shared ownership, goal incongruence and different institutional forms within the same entity and differentiated structures of economic and social control (Johanson and Vakkuri 2017). Our case (or rather cases) in this chapter features many of these

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elements, in the private sector, and we will focus on the issue of different forms of economic and social control in particular.

For more than a century, mutual insurers have dominated the Swedish insurance market. Independent of the historical roots and traditions, companies that sell life and other (non-life) forms of insurance have chosen the mutual organizational form. Here, we focus on two different mutual insurers—*Folksam* and *Länsförsäkringar* (*LF*, which means *County Insurances*)—in decoding their historical roots, governance and management structure. The analysis concentrates on the post-World War II period, with special attention to the development over the last decades. Our focus is on the differences and similarities with special attention to customer's participation in governance. The chapter shows that it is indeed possible to organize successful hybrid organizations with longevity and that the state's role in the process is vital but not always a precondition for successful development of hybrid firms. In addition, the chapter also shows that it is difficult to include customers/owners in the governance of these firms and that there exist many different options for creating such systems.

Mutual insurance companies have been an important part of the modern Swedish insurance system since the middle of the nineteenth century. But mutual insurance has an even longer tradition—dating back to the Middle Ages—when village peasants took joint responsibility for fires in the village. With the breakthrough of the industrial society, insurance became important for both personal security and the general economic development (Söderberg 1935). In Sweden, until the early twenty-first century, mutual insurance companies have been established based on several divergent traditions:

- Local fire insurance companies began to appear in the early nineteenth century and successively expanded their insurance activities into other areas. However, they remained regional or local mutual insurers with the customers as owners. These companies based on the same tradition initiated a cooperation in 1917, and in 1936, an umbrella organization for all regional companies was established—*LFAB*. This company became the basis for a comprehensive development of the *LF* group starting in the 1990s, while still maintaining

its nineteenth-century roots from the agriculture movement. In 2018, the *LF* group represents one of the country's largest insurers, consisting of 23 separate regional insurers, 16 local companies and a handful of other companies connected to the financial and insurance businesses (Hjærtström 2005; Larsson and Lönnborg 2016a).<sup>1</sup>

- In 1905, the Swedish cooperative movement (Co-op), *Kooperativa Förbundet (KF)*, decided to establish a mutual fire insurance company, *Samarbete* (which means 'cooperation'), but it was not until 1908 that this business started. In 1914, *Samarbete* initiated a cooperation with *Folket* ('people'), a mutual life insurance company, and in 1946, the two companies were registered under the amalgamated name of *Folksam* (meaning 'people in cooperation'). In 2017, *Folksam* is one of the country's largest insurance companies with activities in other financial areas as well and a retained strong connection to the cooperative alliance (Grip 2009; Jüring 1983).
- A third example of mutual insurance tradition can be found in the Swedish insurance company *Skandia*. This company was originally established as a joint-stock insurer in 1855 (the first founded in Sweden) selling life insurance and fire insurance. The company grew, mostly through mergers and became one of the dominating insurers in Sweden. After financial problems in the early 2000s *Skandia* was purchased by Old Mutual (a South African group started as mutual in 1845 and demutualized in 1999), but the life insurance and banking activities were taken over by Swedish interests again in 2013/14 and organized as a mutual company (Larsson and Lönnborg 2016a, 2019). While *LF* and *Folksam* were based on nineteenth-century popular movements, the organizers behind *Skandia* used the mutual organization form to create trust and confidence among customers and in the Swedish economy after having been discredited in the early 2000s. Sardiello, Alexius and Furusten further develop the case of *Skandia* in Chap. 4 in this volume and it is therefore excluded here.

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<sup>1</sup> Another example is Dina Försäkringar (Your Insurances) that is a cooperation of 11 independent parish (local) mutual insurers. In collaboration, a common joint-stock company was founded for dealing with reinsurance and supporting the individual insurer in 1987 and since 2006 uses the common brand name.

- The mutual organizational form has also been used in other specialized insurance companies, such as occupational pension companies, usually organized by the labour parties and often as monopoly insurers in a limited market. One example is *Pensionsgaranti FPG*, organized by the Swedish Employers Association to guarantee the pensions of white-collar workers in the early 1960s. Another company, *AMF, Arbetsmarknadsförsäkringar* (Labour Market Insurances), was jointly created in 1973 by the employers' organization and the trade union for blue-collar workers to supply privately employed workers with supplementary pension. Yet another example, *Förenade Liv* ('united life'), was founded in 1949 through a collaboration of both joint-stock and mutual insurers to sell group life insurance. For these types of insurance, mutuality was a natural choice, since all profits made in the insurance business, at the time, should go back to the policyholders. For *Sweden Reinsurance*, however, a company established in 1914 and that, like *Förenade Liv*, was a collaboration of joint-stock and mutual insurers to deal with life reinsurance on a mutual basis, the joint-stock form was chosen as a way to mitigate the financial risk for the founders (Larsson 2011; Larsson and Lönnborg 2014). In short, mutual ownership was the original form used when insurance was introduced to the market back in the twelfth century, and has survived, possibly thanks to the fierce competition with joint-stock insurers since the nineteenth century. In addition, the mutual form has often been chosen when different interests have collaborated in the market and, for the most part, the mutual ownership form has created legitimacy among policyholders.

These examples illustrate the variety of mutual insurance organizations with different business activities and different histories in the Swedish market. While economic priority of the policyholder is a common feature among mutual companies, other aspects of these companies are not as easily defined. Different company traditions affect the companies' behaviour in the market as well as their organization and activities. The two cases we deal with in this chapter are examples of collaboration within different special interest groups. The first, *Folksam*, was part of the labour movement and the second, *LF*, had close ties to the agricultural movement, though today both companies have evolved and have cus-

tomers/owners from all across society. However, a similarity between all mutual insurance companies—not only *Folksam* and *LF*—is that the policyholders are also the owners of the company. Thus, representation of the policyholders in the companies' decision-making is a natural and compulsory component of the organizational structure.

In this chapter, we concentrate on the structure and development of the policyholders' participation in the companies' business and decision-making, with special emphasis on the analysis of differences in organizational structure and policyholder representation between two of Sweden's largest insurance companies—*Folksam* and *LF*. While the relationship between the company and the policyholders is naturally fundamental to this analysis, the activities of a third stakeholder—the state—are also of crucial importance. The state, in a broad perspective, has not only defined the 'rules of the game' but has also been active in the evaluation of different systems for policyholder participation in company decision-making.

## 3.2 The Rule of Traditions and Regulations

The Swedish insurance market has a long history of institutional settings that, during different periods have favoured different organizational forms. Putting the Swedish mutual insurers in a historical context and making a very long story as short as possible, one could say that the modern Swedish insurance market emerged during the 1850s. The first company, *Skandia*, was founded in 1855 in Stockholm with a mixed portfolio, selling both life and non-life insurance. Additional 'mixed' insurers followed in Gothenburg in 1866, *Svea*, and Malmö in 1884, *Skåne*. These were joint-stocks corporations but, after 1884, no other corporation received concessions from the government for combined business operations of this type. After 1884, only 'pure' life or non-life insurance companies were accepted. The differences between these different branches of insurance, in particular in policy period, where fire insurance was renewed every year but life insurance contracts could be valid for decades, was considered to be an inappropriate combination. Another problem was that most of the assets belonged and were to be repaid with interest to policyholders in the future. The advocates of separation claimed that a

natural division existed between fire and life insurance and argued that the share capital should be limited because this benefited the customers (Bergander 1967; Bucht 1936; Hägg 1998).

An important issue during the second half of the nineteenth century was the institutional set-up. The absence of special insurance legislation created a legitimacy problem for the industry. In 1879, the Swedish Insurance Society (established in 1875) was able to present a draft for insurance legislation, which was further prepared by the Ministry of Civilian Affairs. The government failed to present a bill, however, though in 1886 certain executive orders (or 'preliminary laws') were issued and a part-time insurance inspector was appointed. The preliminary laws made it possible to establish mutual life insurance companies and, from the end of the 1880s until 1900, 13 companies where policyholders themselves owned the firms were founded (Fredrikson et al. 1972; Englund 1982; Enskilt försäkringsväsen 1954; Larsson and Lönnborg 2009, 2010).

Towards the end of the nineteenth century, the antagonism between joint-stock companies with large capital reserves and the smaller mutual insurers with less capitalization became increasingly obvious. The criticism came mainly from large joint-stock companies that asserted that capital stock created confidence among the general public. The mutual companies with smaller reserves were thus jeopardizing the legitimacy of the entire industry. This resulted in an elevated uncertainty for policyholders of small-capital-stock mutual companies and a number of smaller joint-stock insurance companies. Several smaller mutual companies with economic problems responded by merging with larger mutual companies. According to the mutual companies, the problem was not size, however, but that joint-stock insurance companies tied too much capital to their own shares, resulting in a mandatory yearly dividend that decreased the value of the capital of the policyholders. The debate between mutual companies and joint-stock companies was mainly pursued through the insurance journals but also via pamphlets and brochures. The argument came to be called the large 'battle of principles' and culminated in 1900–1902. The mutual antagonism was presented as a battle over how the insurance companies should be organized to best satisfy policyholders' interests. The 'combat of principles' was partly resolved with the introduction in 1903, after decades of debate, of an insurance business

law, wherein the two organizational forms were regarded as 'equal' (Bergander 1967; Larsson and Lönnborg 2014). The combat did continue in different forms, in particular after the social democratic party came into power (as we will return to), but mutual and joint-stock insurers have collaborated more closely in trade organizations since the early twentieth century (Larsson and Lönnborg 2016b).

The 1903 legislation is important because it created general confidence in the insurance industry. The government intervention also opened further cooperation within the industry. The legislation was built on existing market norms, and this meant that agreements that had previously existed between selected companies could now constitute the basis for the entire market. The law thus contributed to the creation of unanimity between the companies. For example, a standard approach to the mathematical calculations underpinning life insurance—the calculation of premiums and the calculation of profits and distribution of those profits to policyholders—was developed. The overall objective of the law, to create financial stability for the companies, also led to a standardization of business activities, which in turn stimulated cooperation between the companies, not least in areas where the law did not provide clear guidelines. Perhaps even more important, the new law accorded joint-stock and mutual insurers both legitimacy and regarded them as 'equal' and solid organizational forms. As long as insurers followed the legislation—met their financial commitments (the solvency principle) and published their annual statements—the ownership form was irrelevant (Larsson and Lönnborg 2015).

In the 1930s, politicians from the political left challenged the insurance industry, claiming that the industry was deeply inefficient and should be entirely nationalized and continue business as one state-owned company. This suggestion was never realized, but the new insurance legislation of 1948 did include many new elements that made it easier for the state to control the industry. Altogether, the operation of the Insurance Inspectorate post-1948 followed six 'principles' in monitoring the private insurance industry: the principles of 'solvency', 'equity', 'need' and 'separation' (between life and non-life operations), and the principles the 'insured's influence' and that 'insurers conduct only insurance business'. In short, the most interesting changes had to do with the state's ability to

decide whether or not new companies could enter the market and its ability to indirectly set the premiums in the market and force the industry to invest in state-issued bonds. Another interesting issue was the so-called principle of ‘mutuality’, which in practice meant that the profits of every life insurance company—regardless of ownership structure—should be returned to policyholders. This was not a formal rule but was inspired by previous traditions in the market. The fierce competition in the life insurance market already before World War II had brought about a development where most of the profits were returned to the policyholders. However, as a part of the principle of equity, the principle of mutuality constituted an informal ban on dividends for life insurance companies, and even joint-stock corporations were forced into acting like mutual insurers (and the principle remained formally valid until the year 2000). The legislation also required that—regardless of whether the company was joint-stock or mutual—policyholders be able to influence the corporate governance of the company (Larsson et al. 2005, 75; Grip 1987).

The changes in the regulatory regime were in part a compromise between the state and private insurers, but in practice, the compromise enhanced the role of the state, in particular through controlling the investment behaviour of insurers. For life insurance, the principle of mutuality stated that if a company wanted to operate in the market—regardless of ownership form—it had to act as a mutual organization and return all profits to the policyholders. This rule made it impossible for Old Mutual to transform *Skandia Life* into a proper joint-stock company and paved the way for *Skandia Life* to repurchase the Swedish portfolio and turn the company into a mutual company in the early 2010s. In sum, the new legislation favoured the mutual companies at the expense of joint-stock insurers and the social democratic government regarded *Folksam* as the most prominent insurer in the market with a democratic governance.<sup>2</sup> This view changed incrementally in the 1980s and 1990s, when the government instead came to regard joint-stock corporations as the most ‘effective’ organizational form, mainly because it was easier for

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<sup>2</sup>The so-called parliamentary procedure for electing representatives at *Folksam* meant that different organizations within the labour movement could select a certain number of representatives, see further below.

them to raise capital and they had the capability to compete in the future in the international market—which was viewed as a necessity in order to survive—when Sweden joined the European Union in 1995.

### 3.3 Participation in Governance: The State Sets New Norms in the 1950s

The codetermination of policyholders in mutual insurance companies was a vital part of these companies' tradition and from the beginning also an important trademark of the mutual insurance companies. Already in the preparatory work for the 1948 insurance legislation there was political discussion about how the policyholder's position could be strengthened. The problem lay, however, in establishing and promoting a system that would function in different companies. Establishing compulsory delegate assemblies was one proposal put forward, but did not lead to any new legislation. In contrast, the new legislation stated that the policyholders' common interest should be the foundation for all mutual insurance companies, and business operations should be performed in their best interest (SOU 1946:34, 26–31).

Parallel with the preparatory work on the new insurance legislation, an insurance committee consisting of parliamentary members was established, to revise the relationship between political society and insurance companies, and the question of democratization of the decision-making in insurance companies soon became a major issue. The focus was not on mutual companies, however, but on joint-stock companies where policyholders had a weak position vis-à-vis the companies. The view was that the policyholders in these companies ought to be given the same rights as policyholders in mutual companies. The committee also stated that mutual companies should be given priority over joint-stock companies when new companies were to be established (SOU 1949:25). There was no direct proposal to abolish joint-stock companies in the insurance market, but there was little doubt that mutual companies were treated as the model for all insurance companies.

This led to new legislation in 1950—in force from 1952—for the representation of policyholders in joint-stock companies. Thus, the involve-



ment of policyholders in the running of joint-stock companies was regarded as a natural change by the regulating authorities, but the shape this representation reform would take was left to the individual companies. This made the subject of policyholder representation an important matter for the insurers.

The larger the company, the more difficult it was to create a well-functioning system for policyholder representation—irrespective of whether it was a joint-stock company or a mutual insurance company. In joint-stock companies, owners were able to exercise their influence through voting at the shareholders' meeting, but all policyholders were not shareholders. A position on the board of directors at least gave the formal right to participate in the governing of companies.

In mutual insurance companies, the policyholder representation situation was much less clear. There were companies with clear representation policies, which they also continued to develop, but there were also companies where representation was more or less an illusion. This is why the 1945 insurance committee wanted to establish delegate assemblies, to be elected by the policyholders, trade organizations or organizations such as the Consumer Cooperative Congress, which would have the right to exercise the policyholders' wishes. In spite of the fact that there were strong promoters for these delegate assemblies, however, this was never realized in legislation. In smaller mutual companies, on the other hand, policyholders' participation in decision-making could be more easily organized through the annual meetings/councils (SOU 1949:25). The insurance committee was also of the opinion that this direct participation system could serve as a template for the large national companies.

This discussion reflects the atmosphere and political flows of the 1940s and 1950s in Sweden. For the social democratic government, it was important to promote an effective and fair insurance system, which also included the participation of policyholders in the governance of insurance companies. From this perspective, the mutual insurance companies were the ideal company type for the Swedish model—since the policyholders were also the companies' owners. The insurance committee also noted this when it suggested that mutual insurance companies be given precedence in the establishment of new companies—especially when establishing life insurance companies. The representation of the

policyholders in different company assemblies was also important, since the insurance business was fairly complicated, and their participation could affect the performance of the companies' business.

The question of policyholder representation was also a key issue in the expert opinion of a 1958 insurance panel (consisting of representatives from the private insurance industry and politicians and chaired by the head of the Insurance Inspectorate). Once again the national insurance companies were in focus. The experts noted in particular the problem of creating a well-functioning participation system for these companies. It was true that representatives had been appointed to the boards of several of the largest companies, but actual participation had failed to materialize. This could of course be explained by the companies failing to reach out to their policyholders, but may also be a consequence of a well-functioning insurance industry with satisfied customers. The insurance experts did not present any proposals for change; instead they expected that the companies themselves would develop new participation reforms. The larger companies achieved this mostly through councils and different types of authorities connected to other organizations, but also through direct participation on the board of directors. In sum, the legislation stressed that policyholders should be given an opportunity to exercise influence on governance but gave no detailed instructions on how this should be accomplished; it was up to every single corporation to solve this individually.

The insurance experts did, however, have some suggestions when it came to the election of representatives. The most important principle here was that annual meetings/councils should be composed of a mixture of individuals, regardless of whether they were selected directly or indirectly through organizations, and it was up to each company to decide on this depending on the size and traditions of the company. The experts also suggested that a list of candidates to select from could be put together by the Insurance Inspectorate, and circulated to the policyholders to vote on. A final suggestion was that the policyholders' representatives could be designated by the government or by a government-affiliated organization. The referral bodies emphasized the importance of a well-functioning representation of policyholders on the insurance companies' boards. But they also stressed the large differences between companies. There was

thus no patent solution for policyholder representation, and this was also emphasized by the government bill for new legislation (SOU 1960:11, Proposition 1961:71, SFS 1961).

In the late 1950s the Insurance Inspectorate conducted an overview of policyholders' representation in 19 of the country's largest mutual insurers—11 life insurance companies and 8 non-life insurance companies. The life insurers primarily used a two-phase selection process, the first being a nomination of delegates and the second voting by ballot among the policyholders. Some life insurance companies as well as some non-life insurance companies used a direct voting system for policyholders, with candidates nominated from different parts of the country (Folksams försäkringsutrednings betänkande 1962, 94–95).

However, the policyholder representation was not always a success. In several cases, it was merely symbolic and the policyholders' power only a formality. The Insurance Inspectorate took some of the blame for this, since the system had been recommended in 1948 when there was no experience from these systems (Folksams försäkringsutrednings betänkande 1962, 95).

The Insurance Inspectorate also identified some other problems with the representation systems:

- The majority of policyholders was not interested and could see no point in engaging in the running of their insurance company—at least in the larger companies.
- Another problem was the electoral process, which assumed relatively high input from the policyholders: proposing candidates to the council, confirming that they were customers/owners of the company, and gathering the appropriate information about the proposed candidates.
- A particular problem was also low voter turnout at the final election to the council. Even though the election was a democratic process, there was some question whether or not the results would yield a proper representation of the policyholders. Another problem was that the election process was divided into two parts—the selection of candidates and the final election to the council—which made it difficult for policyholders (the voters) to form an opinion about all of the candi-

dates. The easiest way was to choose representatives to the board in the order that they appeared (alphabetical) on the electoral list.

In spite of these objections, however, the Insurance Inspectorate was unable to propose a more effective and efficient way to organize policyholder representation in the large insurance companies. On the contrary, it saw advantages of having close connections between the insurance companies and the organizations involved in the candidate nomination and election process.

There were several public enquiries into the credit market as well as the insurance market in the 1960s and 1970s. But none of them addressed more thoroughly the question of policyholders' representation in the insurance companies. This was foremost a question for enquiries and politicians during the 1950s. Policyholder representation became part of the Swedish model, in a broad perspective. This could be seen in the cooperation between customers and companies in both joint-stock and mutual companies, but also in the state's interest as a stakeholder in the development of a well-functioning representation of policyholders. The state interest in the insurance industry was large for several reasons. Proposals to nationalize the entire industry had been put forward in parliament in the 1930s but had been rejected. However, this had also increased the interest in how the workings of the insurance industry and put pressure on the social democratic government to keep an eye on development in the industry. At the same time, the public sector's interest in insurance solutions had increased alongside development of the welfare state. Policyholder representation in the insurance industry was not subject to any larger changes from the 1960s on. The already-existing systems were instead refined, meaning that the development of both direct representation and indirect representation through organizations remained in focus.

Following financial problems related to the fall in the stock market in the early 2000s, the question of policyholder representation in insurance companies received special attention. Although the problems of Swedish insurance could be handled within the system, the trust in these companies was damaged (Rossander 2004). To restore trust, a new official enquiry was set up. This drew attention to both policyholder representation and

the function of the board of directors. The feeling was that the policyholders' position vis-à-vis the company should be enhanced, through making the annual meeting/council and the board of directors directly responsible for protecting policyholders who had contributed to the build-up of the capital within the company—as opposed to those who had not (unit-linked insurers). The enquiry also suggested that the insurance company's board of directors should be given greater freedom from the business management, thus refining the function of these groups. The policyholders should appoint at least one representative on the board directly, or by an organization connected to the insurer (Proposition 2003/04:150). This proposal was accepted as new legislation in March 2004. In this, as well as a later official enquiry (SOU 2006:55), the decision-making process in mutual insurance companies was up for discussion. The main point was that each group in the decision-making process—annual meeting/council, board of directors and the business management—should have its specific function and that too close personal connections between these groups should be avoided. However, this did not necessarily have to interfere with the policyholders' representation.

### **3.4 Policyholder Representation in *Folksam* and *Länsförsäkringar* from the 1960s**

As the mutual companies stepped forward as a role model for insurance activities, the demands on the companies increased. Since the legislation of 1948 did not specifically define how policyholder representation should be organized—but left that to the companies—the companies had to state this in their articles of association.

*Folksam* gave special consideration to how company operations could be run by and for the policyholders in a large centralized company. Both the size of the company and the continuous growth of its customer base made it difficult to incorporate direct representation. The company was of the opinion that this could only be done in local or regional companies, though obviously functioned well in these companies. The construction of a delegate assembly was the best alternative for *Folksam*, but this had to be adjusted to the company's business and customers. A del-

egate assembly consisting of a minimum of 20 representatives from different employment organizations, charities and non-profit organizations, and from different associations from industry and trade, would certainly be in accordance with the legislation's intent (Folksam's försäkringsutrednings betänkande 1962, 91 and 102–103).

*Folksam's* connections with Sweden's cooperative movement (Co-op) created a natural fundament—mainly because the Co-op was organized in a similar manner—for the election of representatives to both the council and committees of *Folksam*. An important prerequisite was, however, that the organizations that would elect representatives to *Folksam's* council were also democratically run also had a democratic organization. This system would function especially well if *Folksam* were to develop closer cooperation with other organizations in the cooperative sphere. A proposal suggesting that delegates to insurance company boards/councils be appointed by the Insurance Inspectorate was rejected by *Folksam* (Folksam's försäkringsutrednings betänkande 1962, 103).

When *Folksam* was given the opportunity to comment on a governmental bill in 1965, the company concluded that only *Folksam* (the cooperative movement) and *Ansvar* (the temperance movement) had managed to establish creative contacts with popular movement organizations in Sweden. The following year, *Folksam's* organizational contacts had developed even further, with a cooperation agreement with the Swedish savings banks.<sup>3</sup>

*Folksam's* ties to the cooperative movement and the working-class movement were apparent in the composition of the council—the company's highest decision-making body. In the mid-1980s, the annual meeting consisted of 108 representatives appointed by:

*LO, Landsorganisationen* (Swedish Trade Union Confederation)—36 delegates representing 2.2 million policyholders;

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<sup>3</sup> Folksam archive, Till Riksdagens Bankoutskott, yttrande angående försäkringsväsendets organisation och ställning, 18 March 1965; PM angående principöverenskommelse om samarbete mellan Folksam och sparbankerna, 16 September 1966. The cooperation between *Folksam* and the savings banks can be explained by a community of interests between the two companies. A large portion of both organizations' customer base was from the working class. However, this also resulted in problems in the local markets, where the saving banks often cooperated with the local *LF* companies.

*TCO, Tjänstemännens Centralorganisation* (Confederation of Professional Employees)—18 delegates representing 0.88 million policyholders; Consumer Cooperative Union (*Co-op*)—36 delegates representing 1.9 million policyholders; *OK, Oljekonsumenternas Förbund* (oil consumer cooperative)—9 delegates representing 1 million policyholders; *HSB, Hyresgästernas Sparkasse- och Byggnadsförening* (housing cooperative)—6 delegates representing 0.44 million policyholders; and *Riksbyggen* (housing cooperative)—3 delegates representing 0.13 million policyholders (SOU 1987:58, 346–347).

The distribution of delegates was supposed to reflect the balance between the cooperative movement and the trade union movement. This explains the high representation of *TCO* compared to *OK* in relation to the number of policyholders. The annual meeting consisted of a large number of representatives from the central organizations of the different corporate bodies. However, at least one-third of the delegates were to represent regional bodies (SOU 1987:58, 347). The size of the council was later reduced to 54 delegates, of which 22 represented the Cooperative Union, 18 represented *LO*, 9 represented *TCO*, 3 from *HSB* and 2 from *Riksbyggen*. Thus, the balance between the cooperative movement and the trade union movement remained the same (SOU 2006:55, 100). From a practical perspective, however, the distance between the policyholders and the council increased as the delegates were appointed by the central administration of each corporate body.

After another change in the election process, the composition of council delegates was broadened. In the *Folksam* life insurance company, the trade unions and the cooperative movements had 30 delegates each, while employer organizations had 5 delegates, retired persons had 5, and 5 delegates were appointed through direct election by policyholders (Folksam annual report 2016). This change in the composition of the council reflects both changes in *Folksam's* customer structure and changes in Swedish society, with a reduced importance for both trade unions and the cooperative movement.

This organizational structure was built on parliamentary principles and, on paper at least, represented the policyholders. However, it is easy

to see that a policyholder could be a member of several corporate bodies and that some policyholders would be excluded, that is, not a member of either the labour movement or the cooperative movement. But the representation structure definitely reflects the ego image of the *Folksam* Company.

In the 1960s, the *Folksam* board of directors consisted of 21 members who, apart from the CEO and 2 employee representatives as stipulated in the 1976 codetermination act, consisted of 6 members from *LO*, 6 from the *Co-op*, 3 from *TCO* and one each from *OK*, *HSB* and *Riksbyggen*. The board of directors was a proportional representation of the annual meeting as a whole.

The policyholders' representation in *Folksam* is an example of a centralized indirect election of delegates, built on a centralized election through organizations connected to the cooperative and labour unions *LF* is the contrast to *Folksam*. Based on local and regional fire insurance business, the structure of *LF* was and is decentralized. The regional fire insurance companies are the historical foundation for *LF*, but strong connections with rural Sweden have also opened the way for a good customer relationship with the agriculture sector in general.

The foundation of *LF*'s business today is 23 separate companies representing different geographical regions and working together under the same brand name. Throughout its history and still today, we thus find that many individual examples of *LF*'s policyholder representation has been organized. However, similarity between these different companies—with few exceptions—has been the use of direct election of representatives for the annual meeting. Compared to *Folksam*, *LF* has not had the same contacts with the cooperative movement, with one exception—the Federation of Swedish Farmers (*LRF*), which represents 150,000 individual members. The difference in representation—compared to *Folksam*—is shown in the case of *LF Stockholm* in the mid-1980s. At that time, the election process for *LF Stockholm* was indirect, with organizations nominating 50 of the 60 delegates and the remaining 10 nominated by the elected council (SOU 1987:58, 349). The composition of the Stockholm council reflects *LF*'s good contacts both with rural and agricultural activities and with different trade associations and small-scale businesses:



Stockholm Chamber of Commerce (*Stockholms handelskammare*), 15 delegates;  
Stockholm Trade Federation (*Stockholms Köpmannaförbund*), 5 delegates;  
Stockholm Craft and Small Business Association (*Stockholms stads hantverksförening*), 5 delegates;  
National organization for small businesses (*Småföretagens riksorganisation*) in Stockholm, 5 delegates;  
*LRF* in Stockholm, 10 delegates; and  
Rural Economy and Agricultural Society (*Hushållningsällskapet*) in Stockholm, 10 delegates (SOU 1987:58, 349).

The Stockholm system of nominating organizations is probably a result of earlier recommendations in governmental enquiries, but also due to the large number of policyholders in the company's geographical area, which made it difficult to organize and carry out a direct election. Smaller *LF* companies in other areas used direct elections—after a nomination process—to elect delegates to the council (SOU 1987:58, 349–350).

Since the 1980s, however, the election process in *LF Stockholm* has changed. Today, after the nomination process, resulting in a list of delegates who could consider reelection and new nominees with more than 100 nominators (policyholders), a direct election by the policyholders is carried out (*LF Stockholm* annual report 2016). This has likely increased the possibilities for policyholders to influence the election result, but it is at the same time probably difficult for a presumptive delegate to receive 100 nominations.

A problem connected to both the nomination process and direct voting is low voter turnout. In several regional *LF* companies, however, a system based on both nomination and direct voting over the Internet has been tested. In *LF Skåne*, the system was used for the first time in 2016, when 21 of 50 council delegates were to be elected. The election process started in May with the nomination of candidates via the Internet. Of 344 nominated persons, the nominating committee selected 45 candidates. Each of these candidates was given the opportunity to record a 30-second personal presentation which was circulated, among other places, on social media. The election was later held over four weeks in

September–October the same year, and of the 2758 valid votes, 96 per cent were digital and only 4 per cent sent via ordinary mail.<sup>4</sup> The election resulted in a considerably lower average age of the delegates—falling to 46.5 from 56.4 years of age in the previous council. Another effect was that the number of women increased—12 of the newly elected 21 delegates were women (*LF Skåne* annual report 2016). The new election system also exhibited other positive results. The election process was naturally more dynamic and gave the election committee a much larger number of candidates to choose from. This also opened the way for a renewal of the council.

### 3.5 Conclusion

Mutual insurance companies have played a significant role for the Swedish insurance market throughout history, and several of these companies still prevail today. In this chapter, we have discussed the evolutionary development of mutual corporations, the at times fierce competition with joint-stock companies as well as between different mutual companies, and how mutuality as a principle of governing complex organizations has defended its market position through time.

Over the nineteenth century, the diffusion of mutual corporations occurred in several different ways. Initially, in the first half of the century, small county or parish firms were founded as a means of filling the gap of the Fire Aid (the mutual insurance system introduced in Sweden in the fourteenth century). At the end of the century, mutual life insurers were introduced as a response to joint-stock companies making a profit on life insurance. From the mid-nineteenth century onwards, joint-stock insurance companies that sold life and non-life insurance were established. The rivalry between joint-stock and mutual insurers escalated towards the end of the nineteenth century but was hampered by insurance legislation

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<sup>4</sup>The number of policyholders in *LF Skåne* was just over 429,000 in 2016. Compared to the number of valid votes, this may seem very low—0.6 per cent of the policyholders. This was, however, considerable higher than the previous election. Similar results were also noted in *LF Bergslagen*, where the number of voters increased by 1000 per cent when online voting was introduced, see *LF Bergslagen* annual report 2016.

in 1903, when the two different insurance types became regarded as equal. The competition between the organizational forms and between different companies remained fierce, but the joint-stock and mutual insurers were, in the eyes of the new legislation and the customers, seen as equally legitimate actors in the market.

After World War II, the insurance industry changed as the social democratic government introduced new economic policies. The so-called Swedish or Nordic model was constructed through agreements between employers' associations and trade unions (without the involvement of the state), as well as active fiscal and monetary policies with extensive redistribution of wealth. Consequently, the chosen path of economic policies also generated a specific Swedish insurance model, which fostered an entire system of laws and regulations to sustain policies introduced by the social democratic government. The private insurance industry's main task, according to government, was to supplement mandatory insurance and support the fiscal and monetary policies adopted by the state. The model introduced by the social democratic government—and that also survived a series of non-socialist governments in power between 1976 and 1982—preferred mutual enterprises over joint-stock corporations, mainly because they fit neatly into the concept of cooperation and focused on the policyholder's best interest without 'greedy capitalists' seeking profit maximization.

Policyholder representation in the insurance companies has been an important issue for both the state and actors in the market. For the state, it was a vital part of the insurance system in the late 1940s and 1950s. But during the social democratic government from the latter half of the 1940s, the insurance system also became important for economic policy—a part of the Swedish model (in a broad perspective). The mutuality fits well into the economic organizational solutions during this period and was partly able to counteract the demands for a socialization of the insurance industry put forward by some left-wing politicians. Instead, the mutual organizational form became a complement to the welfare system's public insurance solutions, which increased in importance. From the late 1970s onwards, however, the state's interest in the insurance system gradually changed. At around the same time, some mutual insurers changed their organizational form from mutual to joint-stock companies, among other

reasons, to boost their ability to raise capital. However, the question of policyholders' representation did not necessarily change; the policyholder's interests could be handled instead through direct ownership in the companies or through other committees and authorities.

The official position directly after World War II, under the social democratic government in particular, had a strong influence on the organization of policyholder representation. For the first time, the state expressed a wish to increase policyholders' participation in the running of insurance companies, regardless of organizational form. But the state did not present any specific form of representation as superior to others. Instead, several different organizational solutions were introduced—basically direct election of representatives to the company's council or indirect election via nomination by delegate organizations. In modified and adjusted forms, one or another or a combination of these two forms was introduced in all mutual insurance companies.

Direct election of representatives to the councils was used primarily in smaller insurance businesses, for example, regional *LF* companies, while the indirect election process was used in larger companies (as in *Folksam*)—where direct elections would be difficult to carry out due to the large number of policyholders. In these companies, the use of the so-called parliamentary system through delegate organizations was a better safeguard for policyholder representation. The traditions established in the 1950s—or earlier—have been more or less stable. The most important changes—which may also lead to stronger democratic structures—were introduced in 2016 when some companies began to use online systems both for nominating representatives for insurance companies' councils and for the final election process. In the future, this could change policyholders' governance procedures in an even more democratic direction—in which case customers/owners will need to take a larger personal responsibility for making such systems viable and sustainable.

Returning to the concept of hybridity, in this case, the mutual insurers have indeed used different organizational forms depending on circumstances, but in the end acted as truly mutual organizations, and in turn, this study will support that a straight-forward definition of hybridity is difficult. Regarding the governance, different solutions have been deployed and also transformed over time, but no general model has

evolved, neither from the government nor from trade associations. In addition, the competition on the market enhanced efficiency among mutual insurers regardless of whether the state has or not supported the mutual organizational form. The mutual insurers have not only been able to survive but also gain market shares and today dominate the insurance sector in Sweden (Larsson and Lönnborg 2018).

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# 4

## Governance Structures in Customer-Owned Hybrid Organizations: Interpreting Democracy in Mutual Insurance Companies

Tiziana Sardiello, Susanna Alexius,  
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### 4.1 Introduction

Classical corporate governance theories tell us that governance should be exercised by the owners of the corporation. In this regard, mutual companies are of particular interest since they are owned by their customers (AMICE 2015). By law, mutual companies are characterized by two fundamental and related structural elements that distinguish mutuals from limited companies. The first is the handling of surplus, which must be used for the “mutual benefit” of their customers/owners. The second is that mutuals are governed according to democratic principles, meaning that no

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matter the extent of an individual's engagement in the mutual, each customer/owner has only one vote, as opposed to limited firms where the more you own, the more votes you have (Alexius et al. 2017). However, the vagueness of the law on mutual democracy opens the way to a variety of local interpretations (Edelman 1992). Focusing on the second characteristic, the democratic governance of mutual companies, this chapter explores how democracy is expressed in today's Swedish mutuals.

Mutually owned corporations can be understood as a blend of the institutional orders of both the market and the civil society (Boltanski and Thévenot 2006 [1991]). In particular, they blend the notion of the customer as a typical market actor, with the notion of the owner as a member of a particular civil society organization where representatives are democratically appointed.

Thus, we depart from the assumption that mutual companies are “constitutional hybrids” (cf. Battilana and Lee 2014; Alexius et al. 2017) in the sense that they incorporate, by law, a mix of ideal-typical features of different organizational forms and ownership systems (Billis 2010; Denis et al. 2015; Grossi and Thomasson 2015; Skelcher and Smith 2015).<sup>1</sup> This blend of forms gives the organization an opportunity to pick and choose legitimacy-enhancing elements from different institutional logics (market and civil society logics in particular) in order to survive and thrive (Brunsson 1994; Battilana and Dorado 2010). However, this is at times a double-edged sword that, when wielded, can bring frustration and confusion to hybrids and their stakeholders.

In this chapter, we study how the principle of democratic customer/owner representation and engagement has been interpreted and applied in two of the largest Swedish mutual insurance companies, Folksam and Skandia, companies that have embraced the mutual form in different historical periods and different moments of their organizational life. This is done in an attempt to shed light on how mutuals in particular, and constitutional hybrids in general, respond to the challenges and conflicts of interest encountered internally and externally due to their legal form.

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<sup>1</sup>The concept of constitutional hybridity has been used in political science to define nations that borrow features from various systems of government. An example is Ghana's 1992 constitution, a hybrid arrangement that combines some features of the US presidential system and British Westminster systems of government (Van Gyampo and Graham 2014).

Further, we wish to open a discussion on why in the democratic management and governance practices of the same organizational form (mutual) variation is the outcome and not isomorphism, as it would be fair to assume from an institutional perspective (DiMaggio and Powell 1983; Furusten 2013). In order to understand the reasons behind this variation, we focus on the time these companies were founded so to understand how they were influenced by the surrounding institutional milieu and whether this influence persisted despite later changes in the sociopolitical and business environment (Stinchcombe 1965).

The roots of the first company date back to a mutual company founded in 1908 under the name *Samarbete* and providing only fire insurance, as the result of an earlier proposal of the Swedish Cooperative Union (KF). In this initial period (1908–1924), the company adopted a system of direct democracy. However, in 1925, the company expanded so to provide even life insurance and adopted a system of representative democracy, where the majority of its council members are elected by organizational representatives of the Swedish cooperative sector, trade unions, the sports movement and organizations for retirees. Folksam's council members thereafter elect representatives to the company's board (Grip 2008). In 2012, a reform introduced the direct election of a minority of the council members by individual policyholders (Folksam 2012).

The second company, Skandia, was originally founded as a limited company in 1855, although comprehending a mutual part, its life insurance division. The company changed hands in the beginning of the 2000s, but its life insurance and banking operations returned to Swedish interests after a number of years, and in 2013, Skandia adopted the mutual legal form for all of its business activities. From this new beginning, Skandia embraced a model of direct democracy where all owners/policyholders can vote directly on who they want to represent them in the firm's council and board ([www.skandiahistoria.se](http://www.skandiahistoria.se)). This model has remained intact since 2013.

How Folksam and Skandia organize customer/owner representation and influence is a question we analyze here through the study of official documents and interviews with key organizational actors and by looking at the institutional environment in which these mutuals were embedded at the time they were founded.

## 4.2 Data and Methods

The present chapter draws on written documents (both available online and provided by the companies) and on interviews with key actors involved in the reform (Folksam) and establishment (Skandia) of the formal and informal systems of customer representation in the two companies. The key informants at Folksam were a company lawyer (Johansson) and the head of group governance (Bergmark), and at Skandia, the person in charge of “customer influence” (Lovén) and a retired communications officer (Sundqvist). Fictive names have been used, as displayed above and in the rest of the chapter, to guarantee anonymity. The interviews were conducted at the offices or homes of the interviewees and followed an interview guide with semi-structured questions. The interviews lasted from one to two hours, were transcribed verbatim and analyzed using an abductive thematic approach, that is, where the theme development was directed by both the empirical content and the previously formulated point of departure (Braun and Clarke 2006).

## 4.3 The Case of Folksam

In 1905, the congress of the KF approved a motion to establish a cooperative insurance enterprise and, in 1908, a mutual cooperative fire insurance society was founded under the name *Samarbete*. In 1914, the company expanded so as to include life insurance (*Folket*). In 1925, the two insurance groups, *Folket* and *Samarbete* were given joint management, and in 1946, they joined names to become *Folksam* (Grip 2008). From the beginning, the company had embraced a system of direct democracy; however, in 1924, a model of representative democracy was considered more appropriate in order to guarantee the influence of policyholders (Folksam 2012). Following a number of smaller adjustments over the years, in 2012, Folksam reformed the system in order to more substantially cover also the direct election of a minority of members by policyholders.

Today, Folksam consists of two corporate groups—one for life insurance and pension savings, Folksam Life (*Folksam ömsesidig livförsäkring*), and one for general (non-life) insurance, Folksam General (*Folksam ömsesidig sakförsäkring*). According to Folksam’s organization for democratic

representation, the influence of policyholders is expressed in the form of the right to vote and the right to be heard and present proposals at the annual general meetings (AGMs). Policyholders' rights are exercised in part through specially elected delegates (appointed by organizations that represent the policyholders) and in part through the direct election of a minority of the delegates by individual policyholders organized by a specially appointed electoral organizer. Folksam Life has 75 members and Folksam General has 80 members in the council (for a total of 155). Only ten of these members (five for Folksam Life and five for Folksam General) are directly elected by policyholders; the rest are elected by large organizations representing policyholders (namely the cooperative and trade union movements, employers' movement, sports movement and senior citizens' movement).

Council members appoint the board members of Folksam Life and Folksam General through a nomination committee at the AGM. The aim is to ensure that the boards have an appropriate composition with regard to competence, age and gender (<https://www.folksam.se/om-oss/om-folksam/sa-styrs-vi/folksams>).

### 4.3.1 The Imprinted Spirit of the Cooperative

From our interview with Johansson, one of the key actors involved in the preparation of the 2012 reform and an expert in company law, we understand that the reform was the result of an investigation conducted by a Folksam's committee in dialogue with the Swedish financial supervisory authority (*Finansinspektionen*). As our respondent explains:

We had an internal inquiry at Folksam. It was around 2012 when we noticed that our customer base had changed, and we saw a need to broaden it [the representation system]. And then the question arose about how to represent the policyholders who don't belong to any organization. And that's when this model was brought in, and we've also entered into dialogue with the Financial Supervisory Authority. Not that they've given approval in advance, because they never do that. But we created this model, introduced it in our articles of association, and it's been approved by the Financial Supervisory Authority. So in this way we have received approval from the Financial Supervisory Authority.

The quote indicates that the change in Folksam's democratic system was triggered by changes in the surrounding institutional environment, when the Swedish society shifted from a collectivistic to a more neo-liberal/individualistic political mode (Alexius et al. 2017). Still, the new model was designed internally, adding some changes but all in all remaining faithful to the original idea of how democracy should be expressed (i.e. in a *representative* way) as imprinted at the time the company was constituted (Stinchcombe 1965).

The new model was the result of the work of a committee consisting of representatives for organizations representing policyholders in the corporate parliament, one each from TCO (Swedish Confederation of Professional Employees), KF (Swedish Cooperative Union) and LO (Swedish Trade Union Confederation), as well as Folksam, and a secretariat composed by a chief legal counselor and company lawyer from Folksam, as displayed in the official and somewhat *juridified* documents reporting on the reform work (see Folksam 2012).

Johansson further explains that the idea behind the reform was to remain faithful to Folksam's original spirit, that of being an organization deeply rooted in popular movements and large collectives, but with an eye to changing conditions in the market and among customers/owners, so that the voices of individuals not connected to larger organizations could also be heard. In other words, the reform was driven by the need to balance the two different institutional logics as well as the views of customers. The first logic is the one closest to Folksam's cooperative roots and traditions—expression of a social-democratically influenced welfare capitalism, where customers of a mutual company are viewed as civil society members (Folksam Annual Report 1946). The second is more in line with a neo-liberal view of mutual customers as corporate owners and market actors (Spear 2004; Alexius et al. 2017). Both logics somehow coexist in the hybrid legal form of mutual companies.

Large customer organizations or collectives are further described in our interviews as “guarantors of democratic legitimacy” because they can help to prevent low participation in the elections, which may otherwise be a risk when individual customers/owners are given the opportunity/responsibility to vote.

Raising the interest and engagement of customers/owners is seen as a major challenge in a mutual company, as not everyone finds and decodes the information provided in written documents explaining the parliamentary system. At the same time, as highlighted by the head of group governance, Bergmark, individual customers/owners can experience a general lack of familiarity with the concept of mutuality and the governance role expected of them, as well as a general lack of time to dedicate to the system. Somehow it is like if the institutional environment once supporting the ideology of mutuals has disappeared while formal rules and storytelling inside the company are able to perpetuate and reconstruct mutual values (Czarniawska 2014).

### 4.3.2 Contradictions and Clashes Between Formality and Informality

Our interviews also show a contradiction in how the company talks about direct elections. On the one hand, interviewees experience that policyholders do not know enough about direct elections and complain that they should be more informed and engaged. On the other hand, they also emphasize that direct elections are only a “complement” and that the company should not pay too much attention to the fact that individual participation is low, as the main customers are collectives and organizations. As Bergmark puts it, Folksam’s main customers are “people-based organizations that are democratically structured and have a strong focus on representing their members in different contexts”. These organizations, such as unions, are the formal customers but act as brokers in the interest of their members and make deals with Folksam to make good insurance offers to their members. In this sense, we find similar arguments in the annual reports of the time *Folket* and *Samarbete* merged into Folksam, where the emphasis is on “serving the needs of the Swedish people in general and of the movements (especially the labor one) in particular” (Folksam Annual Report 1946: 1).

What our interviewees do not say, however, is that large organizations and individual customers are carriers of significantly different interests, which can jeopardize the democracy principle if they, whether intentionally

or not, favor some voices and ideas over others (see also Sect. 4.4, “The Case of Skandia”). Johansson lays out the full, formal voting procedure, as it runs over a year:

Annual meetings usually take place in April so sometime in the summer or early fall we get in touch with the different so-called “nominating groups”, and find out who they intend to appoint to the general assembly, as this is the procedure according to our articles of association. And then the term of office for these members is from the 1st of October to the end of September, a one-year term. Then we hold the direct election. And we’ve said we can’t have a process going on through the summer, and so we’ve shifted the term of office for the elected representatives. So their term runs from February 1st to the end of January instead, and there’s a nomination process. All policyholders can nominate representatives—this is very important—during the fall. And then we have a nominating group to ensure that this is done independently of us company officers. This group selects a number of the nominees recommended by the election organizer that the policyholders then choose from.

The above quote is a good description of how the formal system is supposed to work. However, there is a contradiction between what is written in the formal model and the employees’ own take on how things work in practice. Johansson clarifies that the formal model notes the presence of an “election organizer”, who plays a role in the direct elections. Still, the belief in the organization is that the role of the latter should only involve *recommending* who to vote for, that policyholders should be informed of the fact that everyone is eligible to run for election and that, as a policyholder, one can nominate and vote directly for any person, without having to use “filters”.

This discrepancy indicates a possible clash in the organization between the idea of customers as individuals who need to be guided and customers as individuals capable of making their own independent decisions, a thought that is more in line with the recent trends of “responsibilization” of customers, a core technique for the self-management and self-regulation of social risks such as illness, unemployment, poverty and unsustainable future (Rose 1999; Alexius and Löwenberg 2018). It is a conflict that goes hand in hand with the idea portrayed above of unions

“filtering” and “interpreting” the will of their members and of individual representatives voicing their own personal will. What seems to prevail in this conflict is the original ideological imprinting when Folksam was first established in the early decades of the twentieth century when labor and other popular movements were formed in many Western societies, informing the constitution of this hybrid organization, that is, the somewhat paternalistic idea that policyholders are better off when their rights and interests are interpreted and represented by better informed civil society actors (Alexius et al. 2017).

The most important bodies, however, through which democracy is exercised, are probably the so-called insurance committees. The insurance committees are permanent bodies in which Folksam and their respective organizations cooperate to solve important security issues for members and to create opportunities for transparency and impact on Folksam’s product development and operations in general (Folksam 2012). Each policyholders’ organization and Folksam appoint two to five members each to be included in their own insurance committee. Insurance committee members should not be members of the boards of Folksam Life or Folksam General at the same time. Each organization also appoints a chairperson for its insurance committee, who should be a leading representative of that specific policyholders’ organization, and the Folksam members on the committee appoint a committee secretary (Folksam 2012). The committee itself may appoint special experts from either or both parties. The insurance committee holds an ordinary meeting one to four times a year and does not have decision-making authority but can express its opinion and offer advice on insurance-related issues. Compared to the AGM, which takes place only once a year, the insurance committees meet more often and have an impact on concrete decisions that can be important for policyholders. Reports are produced quarterly to inform Folksam’s board and management (Folksam Annual Report 2017). The crucial importance of the committee, as the highest expression of democracy, is brought up several times during the interviews and is of particular interest considering that committee members can only advise and not decide. However, it is difficult to measure the influencing power of this consulting function (Teorell 1998).



Other ways in which policyholders can express their influence is through customer satisfaction polls regarding ethical investments and sustainability work. The company also maintains that it is committed to continuous follow-up of customer/owner feedback and satisfaction (or dissatisfaction) (Folksam Annual Report 2017). Customers/owners are also said to be involved in the whole process of creating and launching new products and offers. Another means, through which the voice of Folksam's owners/customers can be expressed, especially in cases of dissatisfaction, is through the customer ombudsman, an impartial and independent body that reports directly to Folksam's AGMs.

To sum up, Folksam can be described as a hybrid organization that for the most part interprets the principle of democracy in a way that reflects the spirit of the time in which it was constitutionally formed, thus a time when "better informed" representatives of the civil society were expected to voice the concerns and preferences of the "less informed" individual policyholders. Thus, even today, customer/owner representation in Folksam remains deeply rooted in the Swedish cooperative movements and large collectives. At the same time, the different interests of the company's customers/owners (the board, large organizations and individual policyholders) and the pressure coming from outside constituencies (government and supervisory authorities) call for continuous adjustments and balancing actions. However, these adjustments are introduced without looking at other successful models adopted in the mutual insurance field and mostly reflected in the formal governance structure. In practice, a decoupling is likely to appear, between written documents and key actors' thoughts, enabling these organizations to gain legitimacy in the field as well as serving different interests inside the company (Meyer and Rowan 1977; Westphal and Zajac 2001).

## 4.4 The Case of Skandia

Skandia was founded in 1885 as a limited company specialized in fire and life insurance. In the beginning, only Skandia Life (*Skandia Liv*) was mutual, but in 2012, all business activities in Skandia became mutual when Skandia Life acquired Skandia AB. A number of years before this, during the years 2002–2005, Skandia had been characterized by customer

protests and asset withdrawals that had substantially weakened the company. Customer protests were related to unethical behavior of the company on several occasions. A first incident occurred in 2002, with the sale of a subsidiary firm in which Skandia was favored over other owners. The same year it was discovered that Skandia was allocating sky-high pay packages to the company's top executives and that close relatives of Skandia's top executives were receiving apartment rental deals at very low prices (The Economist 2003). The mutualization of Skandia therefore occurred after a period of scandals and economic crisis. In 2011, a special foundation was formed, the Thule Foundation (*Thulestiftelsen*), and placed in charge of the process of transforming Skandia AB into a fully mutual company and hence a constitutional hybrid. Today, Skandia policyholders can directly elect delegates who sit on a council for a three-year term, after which they can also be re-elected. At full size, the council of delegates has a total of 21 delegates (Skandia Sustainability Report 2016).

## 4.5 The Imprint of the Limited Corporation

One of our interviewees, Lovén, who at the time of the transformation was responsible for customer influence, says that the construction of the new Skandia as a mutual company, and particularly the process for organizing the democratic participation of new customers/owners of the company, was quite demanding. On the one hand, the company had to shape a formal model for nomination and voting, and on the other hand, it had to come up with a strategy for making the new owners aware of their rights and for increasing their engagement.

The formal model was established by the Thule Foundation by looking at examples from both within and outside of Sweden. A key starting point for this was that the model chosen should signal that this was something new and not just a copy of old systems of democratic representation, such as that used by Folksam, says Lovén. In the end, a decision was made to introduce a model of *direct democracy* based on three main elements: a general assembly (i.e. Council of Delegates) consisting of 21 members, directly elected by policyholders for a period of three years, with annual re-election of 7 members (i.e. where a third of the seats in the council come up for re-election every year).

Before introducing the model and presenting it internally and externally, where “internally” refers to people working inside Skandia and “externally” to customers and other societal actors, a period of “cross-organizational cooperation” took place. This cooperation involved around 20 Skandia employees from different units: customer services, counseling, complaints, franchising and back-office staff. These people met regularly to discuss how the new model would be implemented.

It is interesting to note that the principle of customer representation reflected more the logic of a limited company than that of a mutual one, not only by being direct but also by having the number of votes mirroring the level of engagement or even the length of commitment of individual customers/owners (Stinchcombe 1965). As explained by Lovén:

And then we've made a distinction with respect to the right to vote, so that the greater the commitment one has the more votes one has, for example, ten votes. If you have a shorter commitment, maybe a one-year premium in a group insurance policy, then you only have one vote.

Two ideas came up as possible ways forward. Either Skandia could adopt a capital-weighted voting model, or they could follow a long-term commitment perspective. Since “long-term thinking” corresponds well to the logic of the insurance industry and Skandia's long history (more than 100 years in operation), the long-term alternative won out. The importance of engaging the owners and encouraging them to take part in the company not only by voting but also by expressing their opinions on products and services was also emphasized. It is also noteworthy that this decision was introduced without the involvement of the customers. However, a lot of effort went into communications, including road shows, distribution of written information, internal videos and external interviews and other PR efforts. Skandia wanted to reach the customers/owners before the voting commenced to raise awareness and to help people understand how the new system worked.

The first year, information about Skandia, the organizational form and how the voting procedure worked was sent via regular post to 1.4 million people. Even in the second year, information was sent via post, while the following years it was sent digitally to the customers who had provided

their email addresses and via regular post to the rest. Over time, Skandia also began to send information via text message (short message service [SMS]). Internal statistics show that more than half of all votes are from customers who received information digitally. In 2017, the people who did not vote were asked to help the company understand how they could engage more people in voting. Many admitted they did not vote because they had no time or they were traveling, says Lovén.

When it comes to the nomination of candidates, the emphasis appears to be more on expertise and professionalization than on a broad and democratic representation of all groups in society. Here again, it seems the logic used is that of a limited company, based more on meritocracy than democracy. As Lovén puts it:

Yes, based on what the nomination committee looks at (...) candidates should have knowledge of the financial industry, preferably insurance knowledge, risk and so on, and should have served on a board or had a type of experience that enables them to understand. And we have received criticism from the common customer. “Why are there no nurses?” “Why are there only board professionals? Why isn’t there anyone from Lapland [Northern Swedish region]?”

Also, the number of council members (21) is not very many and does not signal a very democratic spirit. However, as the interviewee explains, the low number of representatives can facilitate better discussions. The opposite reflection can be made when it comes to the 75 members in Folksam Life (i.e. broader democratic representation but more cumbersome discussions). This is an interesting point to reflect on when contemplating how to guarantee real democratic “participation”.

When comparing the parliamentary systems of Folksam and Skandia, it is of interest to look at a blog post of March 2012 by then-CEO of Skandia Bengt-Åke Fagerman, expressing the thought that customer influence exercised through representatives of large organizations is indeed not all that democratic, as these organizations are affected by conflicts of interest. On one hand, they are loyal to their own members, and on the other hand, they have to serve the interests of Folksam policyholders:

These are all praiseworthy organizations that, I'm convinced, want the best for their members. But if we were a listed company, and you owned shares and wanted to give someone your proxy to represent you at our general meeting—would you choose the Church Academy Association or Riksbbyggen [one of Sweden's largest building, housing and property management cooperatives]? Are they the ones with the best skills and independence? Would they represent you 100 percent when faced with a proposal that's good for you but competes with their own members' interests? Without asking these organizations directly, my answer to that is: "I doubt it." And if that's the case—why would they be good owner representatives in a customer-owned company just because our owners happen to be customers instead of shareholders?

<https://blogg.skandiabanken.se/hem/Blogg/Braekonomibloggen/Tags/Skandia-Liv>

In the aforementioned quote, we can see how the logic used by Skandia's key actors, to address policyholders as if they were shareholders and the mutual form as if it were a limited form, contrasts sharply with the view held by Folksam's actors. More data is needed to confirm this, but it is not unlikely that actors in Skandia are more critical of and aware of the presence of the conflicts of interest in a mutual company, while those in Folksam remain blind to their own flaws, so to speak, due to more than a century of pure mutuality. In the comments and statements released by Skandia actors at the time of the company's transformation, there is a recurring use of expressions like: *I would like Skandia to be a company just like any other company* or *I would like to compare Skandia with a listed company* or *in order to make sure that the owners actually have a real influence we should create something that resembles ownership influence in a regular limited company*. The emphasis on the mutual form's resemblance to a limited company is, further, often accompanied by the need to at the same time complement this somewhat elitist or professionalized view with *a modern voice system*. A system capable of bringing a large number of customers together, something that is not physically possible but can luckily be done digitally.

Somehow the new Skandia follows an ideal of customer representation typical of its time of founding (Stinchcombe 1965), where the limited legal form of organization is the norm and where online solutions have opened the way to forms of direct customer participation. Another

interesting aspect to note is that neither in the interviews nor in the blogs, videos and company documents is reference made to the old Skandia Life and its democratic representation system. Instead, the documents and interviews we have analyzed express that the Thule Foundation was inspired by national and international models of customers representation. These models reflect the time in which the hybrid was reformed, when the limited company was considered the norm.

## 4.6 The Persistence of Conflicts of Interest Despite the Changed Organizational Form

According to our data, the system of customer representation used in the old Skandia Life was a source of conflicts of interest between the customers/owners in the mutual and the shareholders of the other, limited parts of the company. As described by Sundqvist, a retired communications officer from Skandia:

In the past, there were these conflicts of interest (...) about how much to invest in Links [pension and occupational funds] or other forms of insurance, depending on what was best for the owner, and how costs were shared between the different parts [of the company]. But now these conflicts are gone and everything is nicer and cleaner (...). Also, now that the corporation has changed form, all of the customers can exercise their influence, whereas before not all customers were customers in the same way. If you were a Link customer, you weren't a customer in the traditional mutual part of the movement, so a bank customer or a Link customer wasn't entitled to vote the same way as a life insurance customer was.

Somewhat in contradiction to the previous statement that a change in the company's legal form would give all policyholders the right to vote, Sundqvist further explains that even in the new mutual Skandia, Skandia Bank or Skandia Link, customers do not actually have the right to vote. In order to do so, they are required to become customers of Skandia Life. Aside from being a smart commercial move for acquiring more customers,

this rule seems to go along with the long-term commitment perspective embraced by the new Skandia, as explained by our other interviewee. At the same time, however, the decision seems to contradict with the principle of democratic representation in limited companies (that Skandia actors cite as the inspiration), where even minority shareholders have access to vote although in a smaller capacity. In other words, the hybridity of the company creates confusion as to how to treat the customers (as shareholder-like owners or as policyholders of classic life insurance) hence continuing to represent a source of conflicts of interest.

On closer analysis, we understand that the voting system in Skandia encompasses a nomination committee made up of representatives of both corporate and private individuals, with a total of five people including the council chair. Three of the representatives are from ProSkandia (see below). The nomination committee is chosen by the council during the AGMs. The system also contemplates engaging an external search firm to look for possible candidates. Our interviewees believe that Skandia's voting process is somewhat stricter than that of other mutual companies, such as Folksam, where there is often not much control over who it is that votes. In Skandia, a policyholder has to identify him/herself as an owner in order to vote.

An organizational body mentioned by our interviewees as playing an important role in the democratic process is ProSkandia. ProSkandia is an independent owner association, founded at the time when Skandia was not fully mutual ([www.skandiahistoria.se](http://www.skandiahistoria.se)). It is also experiencing a trust crisis due to media coverage, providing both support and criticism of the company, relating to suspected corruption at the top management level. It is, however, unclear how independent this association is, and it would seem that some administrative personnel from Skandia also work at ProSkandia and that the association was financially supported by Skandia Life until 2015. Furthermore, some of the council members are also on the ProSkandia board. This demonstrates a conflict of interest that our interviewees had a hard time to justify.

According to Lovén, mutuality is a “default assumption”, that is, a concept fully internalized, for people working at Skandia although, admittedly, the company is still in a period of transition and its identity building is still in progress. The idea of mutuality as a taken-for-granted concept is not validated in the documents and interviews that we have

analyzed. Instead, we have observed rare, if not non-existent, use of the word “mutuality” and what it stands for. When mutuality is mentioned, it is most often used synonymously with limited company.

Lovén also explains that some written rules are starting to seem odd or even wrong in practice, for example, the rules governing the annual general assembly, giving the assembly the power to decide how the AGM should proceed. Our interviewee reflects on how this should not be the assembly’s role but rather the role of the organization. In the same way, it should not be the assembly but the board who summons to the AGMs.

While the continuous internal discussion about the current formal system of customer representation is emphasized by the interviewees, there is also the mention of a “disinterest” of Skandia in looking at how other mutual companies tackle this problem. We reflect over the fact that looking for inspiration in other models was something Skandia did in the very beginning when the company was seeking legitimacy (cf. Powell and DiMaggio 1991). Over time, the company has not adjusted its model to the competitors, probably because hybrids do not adhere to one and the same model (inspired by the same rationale), but rather balance between different logics in different ways over time (Alexius et al. 2017). However, rather than looking “outside” for guidance, our interviewees say that the company tends to look “within” to find new inspiration. What “within” means is not easy to understand in this context. Lovén does say that customer feedback plays a crucial role. However, during the conversation it seems that “within” refers more to the council, executives and board than to customers who, admittedly, do not show the level of engagement the company hoped for because (and this point comes up all the time) many customers don’t even know they are owners. Not even The Financial Supervising Authority seems to have provided any feedback, contrary to the situation with Folksam. The “within” argument therefore seems to be more the view of owners than the view of customers/owners and to reflect the interests of the former more than the latter.

Similarly to Folksam, there is concern also in Skandia about the scarce engagement of customers. However, attempts are made to stimulate this engagement by using the means of the time, that is, perhaps the most democratic form of customer participation: the internet. As expressed by the policyholders’ representative to the Skandia Life board, in 2011:



We want to create a good and modern dialogue with our customers, where we invite comments, ideas that can help to develop the business. And I think that we have a very good opportunity to do so thanks to modern technology. This gives customers the possibility to easily exercise their influence and make their voices heard.

How this expressed engagement is channeled and transformed into action, however, is difficult to grasp from the analyzed documents. In interviews with key actors from Skandia in the media, we even find a certain level of concern expressed regarding the company's ability to handle mass requests from customers via the internet as compared to when single individuals call and the company is able to fix a single problem for a single person.

To sum up, Skandia can be described as a constitutional hybrid organization since it blends, in the ownership dimension, the logic of a member in an association with the logic of a customer in a firm. In this regard, Skandia is a blend of the civil society and market institutional orders (Boltanski and Thévenot 2006 [1991]). Moreover, it also combines the institutional logics of the corporation with that of the association, while interpreting the principle of customer representation in a way that reflects the organizational model considered as the norm at the time of its constitution, that is, the limited company. The reason for choosing to undertake a hybrid form is not clear from the analyzed documents and interviews, although it seems that the original intent was merely to limit the conflicts of interest that the previous mixed form (limited and mutual) gave rise to. Still, we observe that these conflicts have not been erased but likely even accentuated due to the nature of the hybrid encompassing different logics with respect to who the real owners are and with a merely ceremonial embracement of certain civil society values (Meyer and Rowan 1977).

## 4.7 Discussion and Concluding Remarks

How the principle of democracy is interpreted and applied in mutuals is a particularly interesting question when considering that these organizations are “constitutional hybrids”, that is, they have “an organizational

form and ownership that call for the integration not only of different institutional logics, but also of structural elements typically found in different societal spheres” (Alexius et al. 2017: 4).

In our comparison of how Folksam and Skandia have organized to address customer/owner influence, we see that the chosen democratic models (representative for Folksam and direct for Skandia) reflect the political ideology of the times in which these companies were built or reformed.

We find though many contradictions (especially between what is written and what is believed in the company) that mirror a clash between different institutional logics (belonging to the civil society and the market sphere) (Boltanski and Thévenot 2006 [1991]), as well as between different structural organizational elements (typical of limited companies and of member-based organizations). This clash of logics, caused by the hybrid character of the mutual form, is further intensified by another plausible cause. At the time of their founding, these companies had different organizational forms (one was a limited company and the other a cooperative) and this is a circumstance that is difficult to erase, that is, that they are imprinted by institutional conditions in their environment at the time of their establishment since these conditions tend to persist beyond the founding phase and to cause resistance to change (Stinchcombe 1965). This is at least one possible explanation as to why two large insurance companies, active mainly in the same market where they offer similar products and, in a formal sense, are currently organized according to the same institutional logic, are apparently structured differently in terms of corporate governance.

One of the most telling examples of the contradictory way in which both companies have interpreted and applied the principle of democracy is the way in which these companies consider and address policyholders, that is, sometimes as proper customers, sometimes as members and yet other times as owners. Confusion about what status to give their policyholders deeply affects the way policyholders are given real possibilities to participate democratically in the management and governance of the company. In particular, it challenges the balance between governance and management in these organizations. If the customers’ awareness, that

they also are owners, is low, there is a risk that owner governance will be weak. Moreover, since the customers must activate their owner power, there is also a risk that they will not bother because taking their owner responsibility is too complicated.

Another challenge for active ownership governance are the different systems for democracy in the two cases. In Folksam, the individual customer, and owner, is mainly represented by representatives of large organizations and collectives, for example, trade unions and other organizations that are a part of the cooperative movement. In Skandia, however, every single customer has a chance to vote for candidates of the assembly. Thus, the actual ownership power in the two cases differs formally, though in both cases ownership governance can only be executed through active actions taken by the individual customer/owner.

To conclude, the fact that the two mutual companies studied here differ in their respective corporate governance systems can be interpreted as that the degree of institutionalization for the mutual organizational form is low. A core assumption of neo-institutional theory on organizations is that of success by imitation and assimilation (DiMaggio and Powell 1983). Following this standard line of reasoning, those organizations that fail to conform to institutionalized modes of organization, and therefore break with the norms and expectations for organizing, will stand less of a chance to thrive and survive due to “institutional confusion” among key stakeholders (Brunsson 1994). And above all, it is assumed that as a response they will adjust their formal structure as captured in the concept of isomorphism (Meyer and Rowan 1977; DiMaggio and Powell 1983).

Seen from this perspective, constitutional hybrids seem to be less subject to institutional pressures, one possibility being the fact that they can make use of their two-sided *Janus face* of market and civil society logics, by using the most legitimate one at the moment of their foundation and surviving by performing small ceremonial changes during their business life (Meyer and Rowan 1977). In other words, it could be just the “institutional confusion” among key stakeholders as to the organizational form embraced by these organizations to allow them to adopt various management and governance models in the field and yet survive.

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# 5

## Having It Both Ways: Managing Contested Market Money in a Civil Society Organization

Ola Segnestam Larsson and Susanna Alexius

### 5.1 Introduction

This chapter deals with the general issue of how hybridity in general and organizationally sensitive money in particular can be managed by hybrid organizations. We also address the phenomenon of contestation in hybrids, contributing to the discussion with a case of a civil society organization that raises most of its income through its own market-based lottery, leading to conflict between different sectoral logics in the organization.

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We draw on a longitudinal case study of IOGT-NTO, a Swedish temperance organization, covering the period from 1985 to 2015, and analyze how the management of this civil society organization has handled its crucial yet organizationally sensitive lottery. As it becomes evident in the case, IOGT-NTO wants to have it both ways in the sense that it needs the lottery money to operate but does not want it to be connected too closely to the core operations of the organization.

IOGT-NTO, a member of IOGT International, is Sweden's leading temperance organization, focusing on policy work (alcohol and drug policies) and preventive measures in the area of social work. Its origins can be traced back to 1879, and IOGT-NTO has a membership today of approximately 30,000 in over 1000 local associations divided into 23 regional districts, with a federative structure at the national level. Even though the organization is strongly rooted in a civil society logic and primarily focuses on its social mission of promoting sobriety in society, IOGT-NTO's main source of income derives from a contested activity, namely the organization's own market-based lottery, the Million Lottery (*Miljonlotteriet*).

As IOGT-NTO has over time evolved into a hybrid along with the establishment and developments of the market-based lottery, it has at the same time struggled with the increasingly contested "market money" from the lottery. This struggle concerns not only conflict and competition between different sectoral logics but also the risk that the organization could be publicly criticized, not least following the increased awareness in recent decades of gambling-related harm and addiction (Alexius 2017). Hence, there is an apparent conflict between the IOGT-NTO's work to delimit certain types of addiction while at the same time financing that work with another potentially addiction-creating activities. Making the situation even more delicate, the organization's dependency on the lottery has increased substantially over the decades (from 28% of its total income in 1985 to 74% in 2013),<sup>1</sup> and attempts to diversify the organization's income have failed, partly due to a decreasing number of paying members.<sup>2</sup>

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<sup>1</sup> A total of 28% of US\$1.6 million in 1985 and 74% of US\$9.5 million in 2013. In 2013, income from the lottery totaled close to US\$7 million, with the remaining approx. US\$2.5 million coming from a mix of for-profit, public, and civil society sources.

<sup>2</sup> See, for example, minutes from the bi-annual meeting, 1991.

In this chapter, we take a closer look at how IOGT-NTO has managed its contested market money and how it deals with the contestation that emerges between its overarching civil society logic and the market logic introduced by the lottery (Smith 2014). IOGT-NTO is thus defined here as a hybrid organization in the sense that it encompasses two sectoral characteristics—the organization based in a civil society logic and the lottery based in a market logic (Billis 2010; Evers 2005, Chap. 1 of this volume). While recognizing the multitude of mechanisms employed to manage the contestation of hybridity, including attempts to diversify income, our focus here is mainly on mechanisms related to what we call “degrees of organization” in relation to the lottery (Brunsson and Sahlin-Andersson 2000), that is, how the lottery to a large extent *resembles* a “complete” organization without actually being one in a formal sense. We also discuss why hybridity is maintained in the organization despite contestation and conflict.

Specifically, we demonstrate how IOGT-NTO handles its contested money by governing the lottery as a division of the organization rather than as a separate organization. Control of the lottery is thereby retained by the management of the IOGT-NTO at the same time as the risk for conflict and mission drift can be diminished. In other words, even though the lottery to a large extent *resembles* an organization, it is not a separate legal organization. We suggest that this strategy of *having it both ways* can be related and compared to other mechanisms for managing hybridity (Brandsen et al. 2005; Evers 2005; Jäger and Schröer 2014), such as decoupling of activities (Meyer and Rowan 1977; Brunsson 2006) or the creation of distinct legal subsidiaries (Smith 2014).

In terms of the empirical material, a number of interviews were conducted with previous and existing management and elected representatives from the organization. The interview topics related to the overall income of the organization as well as the lottery and its internal organization. Historical (dating back to 1985) and contemporary documents, such as annual reports and project descriptions, regarding IOGT-NTO’s overall income and the lottery have also been collected and analyzed. The empirical material was coded with the aid of qualitative analysis software (Ezzy 2013) and analyzed primarily with respect to organizational aspects that shed light on the degree to which the lottery could be regarded a complete organization (Brunsson and Sahlin-Andersson 2000).



## 5.2 Contested Market Money in a Civil Society Organization

IOGT-NTO started its lottery operations (Million Lottery) in 1964, and according to the official website, it is Sweden's second largest lottery. In 1964, the lottery had three employees; today, it has more than 50 employees and about 250,000 customers. It currently offers scratch lottery tickets and bingo; customers can also subscribe to the lottery. The lottery's prizes are mainly products, including household items and electronics, trips, cars, airplanes, and houses. The annual revenue amounts close to US\$60 million, close to US\$15 million of which it distributes to the federation of IOGT-NTO organizations.<sup>3</sup> According to the lottery's website, it has contributed more than US\$250 million to the IOGT-NTO federation since the year 2000.

The lottery also serves as a point of ongoing contestation inside and outside of the organization, however. For example, at almost every bi-annual meeting, motions to dismantle the lottery are put forward by members, as it is deemed by some to be highly inappropriate for a temperance organization to promote sobriety at the same time as being financially dependent on a potentially addiction-creating activity such as gambling (e.g. meeting minutes 1975, 2011, 2013).<sup>4</sup> Although said to be more common in the past, critical voices among the employees of the lottery have also been raised in relation to IOGT-NTO's use of the returns from the lottery (Alexius and Segnestam Larsson 2016).<sup>5</sup> Fueling the contestation inside and outside of the organization even further, the Swedish consumer ombudsman sued the lottery in 2017 for inappropriate market conduct, including for allegedly having provided misleading information to customers.<sup>6</sup>

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<sup>3</sup>The federation encompasses three additional organizations (NBV—a temperance movement adult education association, UNF—a youth temperance association, and Junis—an IOGT-NTO organization for children).

<sup>4</sup>The appropriateness of the income derived from the lottery is also discussed in many of the interviews.

<sup>5</sup>The topic was also discussed in some of the interviews, for example, former chair of the board, IOGT-NTO; former general secretary, IOGT-NTO; and CEO, Million Lottery.

<sup>6</sup>See, for example, DN 2017-12-05, 2018-01-03.

### 5.3 Resembling a Complete Organization

IOGT-NTO has a history of creating non-legally binding boards, for example, for the organization's capital asset management or its fundraising initiatives, as well as experience of decoupling activities and creating distinct legal subsidiaries.<sup>7</sup> In the case of its market-based lottery, however, its resemblance to a complete organization extends beyond the creation of a board and includes a set of organizational aspects, while Million Lottery remains at the same time, legally, a division of the overall IOGT-NTO.<sup>8</sup>

With the support of the theoretical conceptualization of degrees of organization (Brunsson and Sahlin-Andersson 2000), we analyze our empirical data, first, in relation to a set of aspects related to the notion of a complete organization, namely identity, hierarchy, and rationality. Thereafter, we highlight reasons provided by the organizational representatives interviewed for the historical and current organizational arrangement between IOGT-NTO and its lottery.

Starting with the aspect of identity, according to theory, seeing something as an organization in its own right requires an identity (Brunsson and Sahlin-Andersson 2000). Having an identity, in turn, involves being regarded as special, possessing special characteristics, as well as having a degree of autonomy, boundaries, and access to collective resources.

The first example of the lottery resembling a complete organization (without legally being one) involves its being regarded as special and separate from the IOGT-NTO, in that it has its own distinct name (Million Lottery) and contact information (including physical address, telephone exchange, and email addresses—@miljonlotteriet.se). Other examples of it being regarded as special include its information material, such as a distinct website ([www.miljonlotteriet.se](http://www.miljonlotteriet.se)) and social media presence on Facebook, YouTube, Instagram, and LinkedIn, as well as printed marketing material.

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<sup>7</sup> For example, minutes from bi-annual meetings; interview with chair of the board, IOGT-NTO.

<sup>8</sup> Legally, IOGT-NTO and the Million Lottery are one and the same organization, that is, registered under same name and organization number (IOGT-NTO/Miljonlotteriet, 802001-5569).

Another example involves a spatial distinction, where IOGT-NTO's head office is located in Stockholm, whereas the Million Lottery is almost 500 kilometers away, in Gothenburg. The CFO of IOGT-NTO discussed the spatial distinctions in an interview:

I believe that we have a good division between the non-profit and market-based parts. You can't say that the division is organizational, as the lottery is part of the activities of the [IOGT-NTO], in terms of the legal organization. We are, however, geographically separated. Stockholm is the civil society part and Gothenburg is the market-based part. There is certainly communication between the two, but from a day-to-day standpoint, each part is managed separately.<sup>9</sup>

Hence, the spatial distinction is perceived as concerning both geography and sectoral logics. Locating the lottery in a different city can be seen as a way of diminishing the risk of colliding logics that may lead to conflicts.

In addition, the lottery resembles a complete organization in the sense that it has access to and control over its collective resources. For example, unlike other divisions of IOGT-NTO, every year, the lottery produces an annual financial report, approved by the Million Lottery board and presented at the annual meeting. The financial report is then presented to the IOGT-NTO board and incorporated into IOGT-NTO's annual report. The lottery also has its own financial accounts and budget at its disposal for the operation and development of the entity and its activities.

When it comes to hierarchy, Brunsson and Sahlin-Andersson (2000) argue that to be regarded as an organization in its own right requires hierarchy, that is, an authoritative body with the ability, responsibility, and autonomy to coordinate and control activities.

In the case of the Million Lottery, at least two authoritative bodies exist that make the lottery resemble a complete organization rather than a division of IOGT-NTO: a board and a CEO. As regards the board, IOGT-NTO has established a separate board for the lottery. However, as

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<sup>9</sup>Interview with CFO, IOGT-NTO.

one member of IOGT-NTO's board noted in an interview: "We call it a board, but in principle it's really a committee."<sup>10</sup> Hence, even though the Million Lottery board has actual members and performs a set of regular duties, in a strict legal sense, it is not a board since the IOGT-NTO board makes all of the formal decisions. The so-called CEO of the lottery (see below) discusses the lottery board in an interview:

The Million Lottery board is not a formal board in the sense of, for example, a formal, for-profit board. If you look at who ultimately decides on the activities, it's actually the board [of the IOGT-NTO] that makes the decisions. And some issues related to the lottery have then been delegated to the board of the Million Lottery.<sup>11</sup>

Despite the fact that the IOGT-NTO board makes the formal decisions, a number of decisions have, nevertheless, been delegated to the lottery, including, for example, issues related to employment and salaries. Hence, the board has some autonomy when it comes to coordination and control of certain operational activities of the lottery. The CEO of the lottery elaborated on this aspect:

We don't need to—if I put it this way—to run the decision to hire someone by a representative from IOGT-NTO, or, for example, to sit and negotiate wages with IOGT-NTO. Rather, we take care of these tasks ourselves.<sup>12</sup>

The other authoritative body that enables the lottery to resemble a complete organization rather than a division of IOGT-NTO is the appointment of a "CEO", the top manager for the lottery. According to an interview with an organizational representative, however, as IOGT-NTO and the lottery are one and the same organization, in legal terms, the lottery's CEO is the manager of a division of the organization rather than the executive manager of a separate organization.<sup>13</sup>

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<sup>10</sup>Interview with board member, IOGT-NTO. A similar statement was made in the interview with the deputy general secretary, IOGT-NTO. On a related note, at one time in the interview, Million Lottery's CEO calls the lottery board a "delegation".

<sup>11</sup>Interview with CEO, Million Lottery.

<sup>12</sup>Interview with CEO, Million Lottery.

<sup>13</sup>Interview with deputy general secretary, IOGT-NTO.

In addition to the fact that, internally, the lottery's board and CEO are regarded and governed as a committee and a division manager, the owner's directive circumscribes the lottery's responsibility and autonomy even further. For example, the division can only operate lotteries and gambling, should always promote IOGT-NTO, and "never risk harming IOGT-NTO or the IOGT-NTO's trademark".<sup>14</sup> Furthermore, the autonomy of the lottery's CEO is subject to financial restrictions, and the lottery should always embrace an approach that harmonizes with IOGT-NTO's ideology, values, and strategy.

Lastly, a complete organization is not only expected to have an identity and embrace hierarchy but is also assumed to be intentional and rational (Brunsson and Sahlin-Andersson 2000). In other words, the organization should work toward specific goals and should be the authoritative body that sets goals, decides on actions, and measures results.

Accordingly, the owner's directive stipulates that the lottery should work toward specific goals, including generating an annual surplus of US\$15 million and investing in and developing business-related activities, as well as promoting and strengthening the lottery as a trademark and identity. The lottery also sets some of its own goals and decides on certain actions. For example:

[The lottery board] is responsible for the lottery's organization and overall management. [The board] will ensure that the Million Lottery has appropriate internal control, as well as continuously evaluate its routines, goal fulfillment, and reporting. [The board] will also ensure that operations are conducted on an economically sound basis.

Similar to the lottery's responsibility and autonomy, however, the intentionality and rationality of the lottery are not absolute. For example, overarching goals, strategic plans, and policies are provided by IOGT-NTO, and the appointment of a CEO needs to be approved by IOGT-NTO's general secretary.

But despite the organizational arrangement creating confusion and contestation both in and outside of the organization, most of the inter-

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<sup>14</sup> IOGT-NTO's directive to the Million Lottery, 2014: 1.

viewed representatives said that they approved of the current arrangements. According to the CEO of the lottery, for example, the division and delegation of labor between IOGT-NTO and the lottery were well established:

I would say that I think there is a clear structure around what the CEO's mission is, what the board's mission is, and, in the long run, what the mission of IOGT-NTO is. For me, it's crystal clear.

The alleged clarity notwithstanding, the division of labor, including what the lottery should do, think, and focus on, has been formalized in various documents, such as regulations and an owner's directive.<sup>15</sup> The interviewees also discussed reasons for the historical and current organizational arrangement between IOGT-NTO and its lottery. Notably, most of the reasons cited did not concern competition or conflict between different sectoral logics but related, instead, to business arrangements, previous experiences, compliance with external regulation, and financial and social risks.

Take the spatial distinction (with the head office in Stockholm and the lottery in Gothenburg), for example. According to an interview with a former general secretary of IOGT-NTO, the distinction was looked upon as merely a business arrangement:

It was very important for us, particularly in the 1980s, that there was a geographical distance. We kept on saying: Let them [the people working with the lottery] do their thing, allow them to make mistakes, they have to be able to invest and focus, they have to be able to achieve success. And let us who govern IOGT-NTO keep to our business. [...] It was a purely a business arrangement.<sup>16</sup>

Another reason stated for the spatial distinction had to do with experience from another organization in the temperance movement. Similarly, reasons given for the established hierarchical structures concerned meeting lottery regulations, delegating running of the lottery to professionals,

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<sup>15</sup>For example, interview with deputy general secretary, IOGT-NTO.

<sup>16</sup>Interview with former general secretary, IOGT-NTO.

as well as a clear division of labor.<sup>17</sup> For example, according to an interview with a representative of the IOGT-NTO board, the establishment of a separate board for the lottery enables the IOGT-NTO board to maintain a mainly civil society perspective:

When a license is applied for, you need a board that's responsible for the lottery. We decided to set up a separate board for the lottery. An alternative could have been to have members from the IOGT-NTO board. However, we've decided that the IOGT-NTO board should have a civil society perspective, and that you don't need to be a lottery professional to serve on the IOGT-NTO board.<sup>18</sup>

Another stated advantage of having a separate board for the lottery was the ability to fire the board in case of a scandal.<sup>19</sup>

At times, IOGT-NTO has considered the option of creating a separate legal entity for the lottery, as it has done in the past, for example, for its publishing activities, which are run in the form of a fully owned subsidiary. According to an interview with an organizational representative of IOGT-NTO, however, the IOGT-NTO board decided that the legal distance would be too expansive and the financial and social risk too great to do the same with the lottery.<sup>20</sup> The lottery money is an organizationally sensitive issue but vital to IOGT-NTO and must, hence, be kept under control and handled with care. Following this line of reasoning, up until now, the strategy has been to allow the lottery merely to *resemble* a complete organization while the executive control and coordination have remained with IOGT-NTO.

To conclude, it should also be noted that IOGT-NTO has used additional mechanisms to manage contestation related to the lottery. These mechanisms include attempts to diversify the organization's income as well as adopting an ethical policy related to the lottery.<sup>21</sup> Regarding the

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<sup>17</sup> For example, interview with former general secretary, IOGT-NTO.

<sup>18</sup> Interview with board member representative, IOGT-NTO.

<sup>19</sup> Interview with the deputy general secretary, IOGT-NTO.

<sup>20</sup> Interview with deputy general secretary, IOGT-NTO.

<sup>21</sup> For example, interview with chair of the board, IOGT-NTO; Annual Report, 2003–2004; protocol from bi-annual meeting, 2011; Annual Report, 2011.

latter, the ethical policy restricts the types of lotteries and gambling experiences that may be offered to customers. Hence, as argued by the interviewed IOGT-NTO board chair: “We would not offer online poker. We do not start casinos.”<sup>22</sup> The organization moreover communicates how the lottery works with responsible gambling, directs customers to telephone support lines for gambling addiction, and encourages employees to participate in courses related to responsible gambling (Alexius 2014, 2017).<sup>23</sup>

## 5.4 An Agent Portrayed as an Actor

Using the concept of degrees of organizations makes it possible to differentiate between *complete* and *incomplete* organizations, as well as the *degrees of organization* in between. A social phenomenon that clearly exhibits all three aspects of a complete organization could be labeled an organizational *actor*. An actor is a social phenomenon that possesses independence and sovereignty, with autonomous or self-interested goals, with rational means and qualities, commanding independent resources and having clear boundaries.

In comparison, an organizational *agent* is an instrument for an actor. Organizational agents are therefore not complete actors in themselves, since they are perceived as having less clear or weak identities and boundaries, resources controlled by higher levels, and little room for local intentions and rationality.

And, finally, an organizational *arena* is an incomplete organization as its members are legitimately guided and controlled by external parties and interests. The arena may exhibit some of the aspects of an organization, for example, some control over resources or internal coordination, but its external governance leads to blurred hierarchical arrangements.

What degree of organization would best describe the Million Lottery? And what are the implications of this for IOGT-NTO? By applying the notions of actor, agent, and arena to Million Lottery, we argue that the

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<sup>22</sup>Interview with chair of the board, IOGT-NTO.

<sup>23</sup>Interview with the deputy general secretary, IOGT-NTO.



lottery is best described either as a blend between agent and actor or as an agent portrayed as an actor. For example, in terms of resembling a complete organization, the lottery exhibits many of the aspects of an actor, including having a special identity, boundaries, access to collective resources, and an authoritative body, as well as displaying signs of intentionality and rationality in terms of setting its own goals. Despite these aspects, however, a number of other characteristics of the lottery, including the status of the entity, the board, and the “CEO”, as well as a number of organizational and financial restrictions, indicate instead that the lottery should be categorized as an agent rather than as an actor. Hence, even though the lottery to a large extent resembles an actor in its own right, it is, in fact, an agent portrayed as an actor.

This organizational arrangement—and analytical result—is somewhat puzzling, in particular, in light of previous research and some empirical results. For example, organizational literature reveals a tendency toward constructing more, not less, complete organizations (Brunsson and Sahlin-Andersson 2000). Moreover, research into hybridity tells us that hybrids commonly decouple activities or create distinct legal subsidiaries in an attempt to leave their operational logic (in this case, the civil society logic of the IOGT-NTO’s temperance work) relatively unaffected (Brunsson 2006; Meyer and Rowan 1977; Smith 2014). Finally, IOGT-NTO has a history of transforming agents into actors and, as already noted, the contestation surrounding the lottery has led to debate and conflict.

## 5.5 Having It Both Ways

Taken together, these reflections beg for an answer to why has IOGT-NTO decided to merely portray the lottery as an actor without actually transforming it into one. The answer to this is not only empirically relevant but could also provide more general insights into our analytical interest in how hybridity comes about and can be managed and maintained despite apparent risks and contestation.

Again, our proposed answer departs from the theory on degrees on organization and complete organizations, where the theory states that a

principal is supposed to control and be responsible for the actions of an agent, whereas an actor is autonomous and therefore responsible for its own actions. Hence, the choice between retaining an organizational entity as an agent or transforming it into an actor could be articulated as a choice between control and responsibility. In many cases, we would assume that a principal would want both control *and* responsibility for an agent (cf. the many cases of constitutional hybridity discussed in other chapters of this volume). However, when responsibility involves conflict or contestation, the choice between control and responsibility could instead be formulated as a trade-off. Do the benefits of control outweigh the costs of responsibility? Are the costs of responsibility of such a magnitude that the agent should instead be transformed into an actor? Or is there a mechanism that enables the principal to retain control without assuming responsibility?

Translating this line of reasoning to IOGT-NTO and its Million Lottery, it would seem that the contestation related to the money raised by the lottery renders the choice between control and responsibility more like a trade-off. Hence, IOGT-NTO must weigh the benefits of controlling the lottery against the costs of being responsible for its operations. Instead of either accepting responsibility for the contested hybridity or decoupling the lottery legally and organizationally, we suggest that IOGT-NTO has attempted instead to avoid making this trade-off by *portraying* the lottery as an actor. This strategy allows IOGT-NTO to elude contestation while retaining control over the financially significant lottery. In other words, IOGT-NTO seeks to have it both ways.

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# 6

## Hybridity as Fluid Identity in the Organization of Associations

Anna Fyrberg Yngfalk and Carl Yngfalk

### 6.1 Introduction

This chapter addresses the issue of hybridity in non-profit organizations formally run as associations (NPA) by examining and discussing how organizational legitimacy is managed under what is commonly referred to as the “marketization”—the trajectory from a socialist to a capitalist value system—of civil society (Hwang and Powell 2009; Maier et al. 2016; Dart 2004). Marketization refers to the rise of market exchange as the dominant mode of coordinating organizational activities (see e.g. Araujo and Pels 2015; Djelic 2006). While adopting a “semi-commercial” organizational strategy in response to an increasing array of internal and external

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demands, a recurrent theme in previous research on civil society organizations in general is how marketization is posing new problems for them, such as mission drift, whereby their capacity to maintain legitimacy in the marketplace is essentially disrupted (Balanoff 2013).

Accordingly, a recurrent theme in the literature on organizations run with non-profit purposes is their struggle to cope with disparate institutional demands in which the “balancing” act between typically commercial and civil society values is placed at the center of discussion (Sanders and McClellan 2014). While some scholars have suggested that a stronger market orientation is unavoidable for survival and should be considered a natural development of NPAs in the market (see e.g. Chad 2013), a majority of studies argue that capitalist interests are colonizing NPA territory, replacing traditional socialist values of democracy, altruism and collectivism with notions of competitiveness and individualism (Eikenberry and Kluver 2004; Eikenberry 2009). In this regard, previous research has drawn attention to questions such as how new institutional environments emerging in the wake of marketization reduce the number of state subsidies and promote capitalist financial models, such as sponsorship agreements or lotteries, which are then enacted upon NPAs through normative ideals (cf. Maier et al. 2016).

However, this view in previous research is grounded in the assumption of organizational legitimacy as something that benefits from unity in terms of how one defines organizational identity. Accordingly, previous research tends to disregard the institutional multiplicity of contemporary markets and how hybrid organizations, and maybe NPAs in particular, are able to develop diverse identities, which enable them to not merely survive but to thrive in markets. More than constituting a problematic effect of marketization—a disruption of civic identity—in this chapter, we argue that hybridity (whether formal/constitutional or developed over time) enables NPAs to construct a “fluid identity” whereby unity is not only unachievable but uncalled for.

Notwithstanding the important contributions earlier in this chapter to the hybridity thinking in the NPA context, we suggest here that the struggle concerning NPAs under marketization, a recurrent theme in the literature, has a tendency to conceptualize too narrow a view of organizational agency in institutions. This constricted view reduces the notion of

hybridity to merely an inadvertent and possibly unfortunate consequence of marketization. In contrast, in this chapter, we draw on a neo-institutional approach and the illustrative case of one of Sweden's largest NPAs operating in a consumer market—Friskis & Svettis (F&S)—in order to show how NPAs' hybrid position in the market not only enacts a struggle upon the organization but also leads to a flexibility that is actively utilized in the management of organizational identity. We show how this in turn enables the management of this organization to build and maintain legitimacy in disparate institutional settings. In this regard, this chapter complements and extends the discussions of Chap. 1, particularly the discussion on alterations and dimensions of hybridity in organizations, by problematizing the notion of hybrid identity, and thereby contributes to our understanding of how legitimacy is constructed in contemporary NPAs, as well as civil society organizations in general. The aim of this chapter is to examine how hybridity is used in civil society organizing to construct and manage organizational legitimacy in an increasingly marketized institutional setting. Although institutions are traditionally understood as sites where means and ends are defined by rules, norms and cognitive schemas that enable and direct actors in terms of their conduct (Powell and DiMaggio 2012; Bromley and Meyer 2015), the neo-institutional approach recognizes the centrality of the meanings that the actors attach to organizational practices. Recent discussion on institutional work, in particular, draws attention to the “purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” (Lawrence et al. 2009). In this chapter, we take inspiration from these discussions and examine the case of the Swedish civic organization and fitness actor F&S. F&S is one of the largest and most renowned NPAs in Sweden and has, as we show, developed strategies for utilizing its hybrid position in active ways. Thus, throughout years of expansion in the health and fitness market, it has managed to put the organization's hybrid “body” to work in ways that enable it to float between multiple identities. This has enabled F&S to incorporate legitimacy in various fields simultaneously, providing it with a unique position in the market. Through a long-term study of the management of F&S, we highlight two key organizational strategies—adaptation and activation—that are used not only to cope with disparate

institutional environments but also to enforce and maximize the organization's hybrid arrangement in relation to the health and fitness market.

In addition, this chapter sheds further light on the implications hybridity has for NPAs with an eye toward state regulations. As we demonstrate, the marketization process, under which F&S is subject to the forces of professionalization and commercialization, has led to new and unexpected forms of regulation being enacted upon the organization by state authorities in order to organize uncertainty pertaining to F&S's hybrid organizational identity. Furthermore, the enactment of such regulations upon NPA hybrids introduces new questions regarding how contemporary public administration is managing hybrid organizations that no longer fit into conventional organizational ideal types.

### 6.1.1 Method

The case described in this chapter is part of a larger study on marketization and hybridity in associations. The project began in 2014 and involves semi-structured interviews with a number of different NPA representatives, including F&S, as well as interviews with several stakeholders in the civic sector, such as state authorities and civic umbrella organizations. An essential element for the current project is to generate knowledge on hybridity in organizations by delving deeper into how NPA managers and employees, as well as state representatives, approach and handle organizational identity in relation to marketization and commercialization but also matters of public governance, all of which seem to affect the scope of hybridity.

In order to address the issue of hybridity in NPAs, not only as a formal arrangement but more broadly in the organization, the respondents, that is, F&S managers, were encouraged to describe their work practices and more specifically how they made sense of their organizational mission in their day-to-day work (see e.g. Sanders and McClellan 2014) in an attempt to move closer to how hybridity takes form in the daily organizational life (Alvesson and Sveningsson 2003). This resulted in a description of how they, as managers, work with their organization's social mission in relation to market notions such as sales, member recruitment

and marketing activities, but also in relation to the public domain and state authorities' interests regarding civil society. These descriptions were commonly followed by a description of how the managers legitimize market decisions and how they have come to utilize their hybridity and develop the organizational strategies of adaptation and activation.

In addition to the interview data, we also analyzed extensive documentation, including official statements, press releases, media articles, the advertising campaigns of civic actors and public documentation from state authorities that investigate or regulate the civic sector. The study applied a qualitative research approach and the data analysis has been governed by a qualitative interpretative process (see e.g. Spiggle 1994) in which chunks of data have been processed through abstraction, categorization, interpretation and analysis in relation to marketization, legitimacy and hybridity.

## 6.2 Embracing Multiple Identities: Friskis & Svettis

F&S, one of Sweden's largest civil society organizations, was founded as an association in 1978 with the aim to complement traditional health care and rehabilitation through "fun and easy" collective physical training services aimed at inspiring people of all ages and abilities in health and exercise practices. F&S was founded by Johan Holmsäter, who was working with fitness education at the students' association at Stockholm University at the time and whose ambition was to gather health and recreation activities under one roof as a way to improve people's well-being. This was before the rise of the commercial health and fitness culture in Sweden, and F&S was viewed as a complement but also a challenge to traditional state-driven institutions and organized sports and fitness programs, which Holmsäter considered to be too strict and competition-driven and thus excluded "ordinary" people from engaging in fitness. Holmsäter therefore started to offer exercise classes based on his (at that time) novel concept of easy, captivating movements to rhythmic music for all types of people. He was successful in developing the organization and it grew for several years following the ambition to create "an exercise movement of joy".



F&S incorporated the idea of inclusiveness early on, inspiring and welcoming all sorts of people and often those with no previous interest or experience of fitness training. People signed up in increasing numbers and Holmström had to educate new instructors at express speed. The organization grew rapidly and just a few years after its first exercise class had gathered close to 11,000 members (Friskis & Svettis 1984). A historical moment for F&S was when it organized a large outdoor training event in conjunction with a running race, an event that echoed across the international press, the French newspaper *Le Soir* referring to it as the Swedish “gymnastique gigante”.

In a documentary about the founding of F&S, Holmsäter claims that creating F&S as an association, based on a civil society logic, was the only option. The reasons he cites for this are his embracement of and belief in the dominating altruistic principles, which to a large degree characterized the 1970s: *At that time, it was all about idealism. Commercialism and self-interest were considered unacceptable. Also, I was young and driven by the idea that I could change the world* (Friskis & Svettis 1984). Accordingly, at the time, F&S had a strong civic, grassroots identity spurred by the ideas of idealism and inclusion. Over the years, the organization has developed a more multifaceted organizational identity and, like many other grassroots-driven organizations, F&S has become more mainstream and market-oriented. And although it is still run, formally, as an association with a non-profit purpose, F&S now also encompasses corporate divisions.

In 2000, the F&S organization began to write a new history. Up until then, almost all local associations rented (often worn-out) facilities in municipal schools and the only exercise classes available for members were “general” group workout sessions. As explained by F&S’s current top manager, many local associations wanted to change this; they wanted to provide much more contemporary fitness training and to have gyms where people could work out on their own. The only way to do that was to create and establish their own facilities, allowing for further expansion in the marketplace. As explained by the manager:

At the beginning of the 21st century, the majority of our associations started to open their own premises, and to provide training in their own

gyms and spinning facilities. Having our own premises gave us the opportunity to provide contemporary training as well as to fulfill our purpose even more, as our idea is to offer high quality training for all. At this point, we reached a broader audience [...] the number of members increased rapidly and there was almost a mass influx with membership increasing sometimes by 150% a year. (Interview, F&S Manager)

Notably, in contrast to many other similar NPAs, F&S was not expanding commercially merely because of external pressures of marketization, but rather the strategy has been to keep up with new fitness market trends, which implies competing with commercial actors. Today, in 2018, F&S has over half a million members and approximately 1500 employees and 17,000 volunteers who run the day-to-day operations of about 160 local associations (111 in Sweden, 40 in Norway, as well as facilities and members at other locations in Europe, including Helsinki, Vanda, Copenhagen, Brussels, Paris, Luxemburg, London and Aberdeen) ([friskissvettis.se](http://friskissvettis.se) 2018). The local association in Stockholm is the largest, with about 90,000 members and a turnover of about SEK 220 million (interview F&S manager). F&S is driven by the mission to contribute with “joyful and easy, accessible training” and provides contemporary fitness training just like any other privately owned commercial gym, including yoga, spinning, dance, cardio mix and core training. This more up-to-date and competitive range of training activities is promoted by advertising campaigns and marketing efforts, in the form of regular national bill-posting campaigns and social media and digital marketing activities, resulting in annual sales in the hundreds of millions of SEK.

Formally, the F&S organization is an association with a non-profit purpose and thus applies a members’ democracy, whereby the autonomous local associations are governed by their members and the annual general meetings at which organizational decisions are made democratically. Many F&S daily activities and operations revolve around the work performed by F&S’s many volunteers, most of them engaged as fitness instructors and others who help out with basic administrative tasks. In order to manage the magnitude of the organization and the “new economic reality”, as one of the managers interviewed expressed it, with

the many functions needed for running large-scale associations (recruitment, finance, member services, education and training, sales, etc.), several F&S associations have developed corporate divisions. While these corporate divisions follow corporate legislation, the hybridity of F&S has become yet more formalized, with distinguishable traits from both civic and commercial/private organizations.

F&S's rapid expansion in the market has not gone unnoticed by other market actors and has given rise to uncertainty regarding the organizational identity of F&S. This is illustrated by the reactions of various Swedish authorities, such as the Swedish Consumer Agency (SCA), the Swedish Competition Authority and the Swedish Tax Agency, who have questioned F&S's responsibilities to society as an NPA and sought to capture F&S associations under new forms of regulation designed primarily for corporations.

As discussed later in this chapter, recent years' expansion of F&S and its adoption of a marketing strategy have resulted in a more competitive and commercial position in the health and fitness market. This has led the state authorities to demand more clarification from F&S in relation to both consumer rights and tax legislation. Most recently, the Tax Agency investigated tax transactions related to F&S corporate divisions and the way in which F&S has organized with leasing and rental of premises (Swedish Tax Authority 2015). These two state investigations have spawned a process of critical self-reflection within F&S with respect to the shift in perception of their organizational identity. Moreover, these interventions have pushed F&S into developing ways to legitimize its NPA identity in the commercial context, and vice versa, utilizing its hybridity in a more effective manner.

In the following sections, we place particular focus on how F&S manages and utilizes hybridity in relation to the enactment of two separate yet interrelated regulatory interventions. First, in response to F&S expanding its focus on marketing and consumer sales behavior, the SCA has come to equate F&S with its corporate competitors and called upon F&S to rework its communications with its members to make them more suitable to consumers in the market. In many ways, this was an effort by SCA to enforce consumer rights more consistently in the health and fitness market.

### 6.3 State Regulation Pushing Organizational Strategies for Identity Management

A few years ago, SCA called on F&S to more extensively and formally meet the Swedish Consumer Sales Act, which protects consumer rights. Furthermore, as commonly reported by the media, consumers too are finding it increasingly hard to see the distinction between F&S and its primary competitors: corporations in the fitness and gym market. It can thus be argued that F&S, according to others, has transgressed from its formal status as a civil society organization (i.e. a grassroots, member-oriented association) by mimicking corporate conduct in the market. Due to the expanding gym and fitness market, the SCA conducted an investigation of a number of gyms, all of them private except F&S, to evaluate whether these organizations were living up to their consumer rights responsibilities in relation to their member agreements.

The SCA found several parts of the F&S membership agreement (for instance, the period of notice and compensation for physical injuries caused by gym equipment) to be insufficient from a consumer law perspective. This regulatory process was a signal to F&S that it was no longer being perceived as a “pure” NPA, which came as a surprise to F&S management. The initial response of the then F&S secretary-general was therefore to claim that it was a mistake to include F&S in the investigation of the gym market, since F&S is formally an association with a non-profit purpose. According to F&S, being a member-governed association automatically means that it is the members themselves who have formulated the membership agreements and thus only the members who can change and decide upon them. The SCA took a different position. According to the official correspondence and the interviews we later conducted, the SCA standpoint is that F&S provides contemporary fitness training services in a competitive and wide-scale manner similar to any other large private gym actor. The SCA also emphasizes how consumers cannot distinguish F&S from other gym actors on the market due to its similarities to private actors, and consumers should accordingly receive equal protection in terms of the Consumer Sales Act. The F&S therefore needs to adjust and respond to consumer rights legislation in the same

way as any other private actor. This was also the final outcome of the investigation, and F&S eventually changed its membership agreement in following with the recommendations made by the SCA.

The subsequent ruling moreover forced F&S to develop strategies for maintaining its disparate identities in the civic and commercial contexts and for promoting the organization's image. Thus, the SCA investigation became the point in time when the F&S organization began to analyze, more critically, how it could better *adapt* to and utilize multiple and at times seemingly heterogeneous expectations arising from its diverse organizational images/appearances.

The SCA investigation led F&S to proactively develop more in-house knowledge for dealing with new matters of uncertainty regarding the organization's mission and appearance in society. F&S was recently subjected to yet another state investigation as the Swedish Tax Agency had concerns about F&S's sales tax and value-added tax (VAT) arrangements. This relates to how some F&S local associations lease premises through their corporate divisions, premises that in turn house the association as well as other external tenants such as physiotherapists. The background to this development of corporate divisions and the rental contract setup is, according to F&S, an effect of current sales tax legislation that makes real estate owners prefer corporate tenants due to tax reasons. This time around, however, F&S was not taken by surprise by the state authority inquiries but managed to act and respond more proactively by introducing a public debate about "systems problems". For example, F&S chose early on to communicate through the media, telling the public about the Tax Agency and its concerns as well as explaining the economic implications of F&S's semi-commercial setup in terms of increased possibilities for F&S to achieve its mission through market expansion. As one of the key managers describes the situation in one of Sweden's leading newspapers:

A ruling by the Administrative court of appeal last year and a statement by the Swedish Tax Agency have meant that F&S subsidiaries can no longer deduct VAT as before [...] For some of our associations, this means additional costs, leading to a deteriorating economic situation. For others, it means that in a few years' time their entire existence may be threatened. (*Dagens Nyheter* 2016-10-07)

The association estimates that this change will increase costs by SEK 60 million per year for the entire organization. For a large association like F&S Stockholm, costs will increase by about SEK 22 million, which will most likely lead to higher fitness card fees. The same F&S manager goes on to describe how the organization is handling the situation and how it is determined to make its voice heard on a higher political level, as the current system fails to recognize the organizational setup of hybrids like F&S. The manager explains: “We must follow the rules that apply and we have a good dialogue with the Swedish Tax Agency. But we are working on this matter all the time and have raised the issue with political representatives”. One example of this is that F&S has approached the Ministry of Health and Social Affairs and the Ministry of Finance. F&S is thus trying to get a response and support from its social environment. The expressed resistance toward the regulatory structure is also accompanied by the development of particular hybrid strategies or institutional work to establish legitimacy in the civic and commercial fields.

## 6.4 Constituting Legitimacy in Multiple Fields: Adaptation and Activation as Key Strategies

In the wake of state interventions pushing self-reflection within the organization, F&S has developed ways or strategies for maintaining and managing its NPA identity as diverse and fluid, thus utilizing its hybrid organizational structure to build legitimacy in multiple fields and in relation to both civic and commercial interests. The findings elucidate two key managerial strategies in particular, referred to here as organizational “adaptation” and “activation”.

*Adaptation* is mainly characterized as maintaining an organizational structure that “best fits” the current “formal” institutional circumstances and thus relates primarily to work conducted in order to accommodate the “regulative pillar” of institutions (Scott 2008). This is illustrated not least by

the notion of adjusting to the legislation of real estate leasing despite the contradiction with conventional NPA setups. As explained by one of the managers, F&S legitimizes its subsidiaries as a response to the current VAT system for real estate leasing:

We consider the tax issues driven by the Swedish Tax Agency to be a problem with the system, leading to certain consequences that we need to manage and adapt to. Given the current sales tax legislation, we need to have corporate divisions in order to gain access to real estate premises. As such, there is no option for us to operate only as a non-profit association. (Interview, F&S Manager)

As indicated, F&S has come to the conclusion that VAT rules are first and foremost constituted for corporations and commercial purposes, and therefore F&S is utilizing corporate divisions as an organizational solution that maximizes its opportunities to rent premises from commercial real estate owners (which in turn gives F&S better opportunities to provide fitness services to the public). In relation to this, the question has been raised of whether F&S should instead consider changing form completely and becoming a true corporation. This is not an option according to the F&S manager, however, as this would mean F&S abandoning its civic values and in turn losing people's commitment to the organization:

[We don't want] to become a full-scale corporation [as this would solve the sales tax/VAT issues]. But we are not interested in that. We have a strong belief in civic and idealist values, and not least in the voluntary engagement and commitment of people. (Interview, F&S Manager)

The organization is therefore determined to continue working to maintain both its civic and commercial attributes, maintaining a will to adapt to institutional pressures in order to defend its conduct in the respective domains, for instance, adapting to the VAT legislation (i.e. by having subsidiaries to obtain optimal real estate leasing) yet maintaining the organization's core idea of its civic contribution. This is a conscious strategy and, over the years, the organization has developed knowledge

and skills for managing the diffuse, varied, and at times contradictory, mix of institutional demands:

As an organization, we are in the situation of being both [civic and commercial]. We need to organize some of our business in corporations and some of it in the associations [in order to best respond to different institutional conditions]. The consequence is then increased hybridity, an increased mix of different organizational identities, as well as an increased administration to handle the organization. (Interview, F&S Manager)

While the utilization of their hybridity became accepted within the organization, and eventually promoted actively during the major expansion in the market, it seems to be more difficult for F&S management to convince external market actors, such as the state authorities, of the reasons for and advantages of F&S's multiple organizational identity arrangement. The F&S managers interviewed often note the state authorities' expressed reluctance to the organizational setup. This is because F&S's mixed organizational arrangement generates uncertainty regarding its interests in the marketplace and the extent to which F&S can be considered a corporation and thus how it should be regulated. The managers feel that the authorities need to be much more flexible in relation to the organization and that F&S's mixed setup is not about seeking to become a corporation but rather represents an organizational arrangement that is needed and is a "natural" response to current disparate demands in society. For instance, they expressed frustration regarding the narrow view of authorities, for example, the Swedish Tax Agency for not understanding the complexity of contemporary non-profit organizing and how F&S, regardless of the authority's skepticism, must continue to develop its hybridity:

It's like, one should not be both an association and a corporation, as these are two completely different types of organizations [at the same time]. (Interview, F&S Manager)

As illustrated here, F&S experiences problems with the "system", though also expresses confidence in its hybrid arrangement as a way of optimizing F&S's organizational setup in relation to both its mission and



the current legal setup of the rental market, which demands corporate solutions. Consequently, F&S does not want to be *either* civic or commercial: it wants to continue to be *both*.

From the outside looking in, these may seem like paradoxical actions—F&S defending the arrangement of the associations' corporate divisions in relation to state authorities at the same time as F&S has become more deeply engaged with more ideologically driven civic work. F&S has also come to engage more closely with other civil society actors from the sports movement and, most recently, has applied for full membership in the Swedish Sports Confederation, that is, in the nationally organized civil society sports movement. This is a major organizational step in its attempt to associate more deeply with Swedish civil society. This is furthermore expressed in the application documentation, where F&S outlines and aligns its mission with non-profit discourses and highlights, for example, its principles of voluntary engagement and members' democracy, which are essential references to the institutional logic of the civil society sports movement (see document on F&S membership application, svenskidrott.se 2016). Accordingly, F&S continually combines its practices of using typically commercial methods for gaining ground in the health and fitness market with its continued efforts to promote a civic core.

The other key managerial practice for utilizing hybridity, referred to here as *activation*, refers to the work conducted in order to maintain an active spirit and engagement within the organization and in relation to multiple organizational interests. This involves developing ways to market, internally and externally, the organization's "unique" identity as a civic yet commercial "movement", which was not least spurred by the regulation enacted upon F&S by the SCA. As noted, the SCA investigation came as a shock to the organization (according to official correspondence between F&S and the Consumer Agency), as it became clear that F&S was no longer considered a "pure" civic organization but rather the opposite. In order to avoid being perceived as private company, F&S initiated a number of activities to emphasize how it is different from its commercial competitors. Many of these activities focused on raising awareness of the notion of a members' organization and members' governance structure. One example is the communication manager's use of storytelling in an internal podcast to explain how F&S "wants to get rid

of the customers”, emphasizing that F&S’s target group is not customers but members. This can be considered a way to build legitimacy as an NPA by shifting the focus away from the hybrid setup without actually changing anything. In a broader sense, activation refers to how F&S managers seek to normalize this member-oriented language internally, by encouraging employees to talk more about the “members’ perspective” (avoiding words like “customer” and “consumer”).

Furthermore, activation refers to more direct efforts (in the wake of state interventions) meant to strengthen the members’ governance by engaging with members to address their concerns at annual meetings. The local associations are thus told by management to hold their annual meetings in the reception area where everyone enters. As one manager put it, “to make the members literally step into the meeting and to get more members to engage as organizational trustees”. F&S has also reactivated its marketing communications and has taken a number of initiatives to reframe its marketing strategy into a less commercial one. This includes not using classical market strategies that focus on things such as best price in its marketing campaigns. However, this does not mean that F&S invests less in marketing. There are no exact official figures, but F&S has contracts with exclusive advertising agencies in Sweden and has also earned awards for its campaigns and is considered to be a large advertising purchaser (see e.g. Resume 2018). Together with the advertising agency TBWA Stockholm, F&S recently created a series of commercial videos promoting F&S’s “health hotline”, which was set up to provide advice and to motivate callers to exercise and improve their well-being. In many ways, the campaign mimics the way state authorities communicate with citizens, for instance, public health efforts that seek to enlighten people about how to quit smoking or how to eat healthier food. This is yet another example of F&S’s fluid organizational identity but also of its claims of seeking to fulfill a higher mission and purpose as a civic market actor that makes it possible for F&S to move forward with a more “grandiose” status in society, and simultaneously, and quite paradoxically, tends to mimic the same public institutions which they once sought to complement.

Another example of how F&S communicates more broadly in society in their quest for legitimacy is illustrated by the initiatives local associations

have taken to support the integration of new immigrants, by handing out free fitness memberships or free training hours to refugees seeking asylum. Other examples of how F&S more actively seeks to build legitimacy as an NPA involve the organization's more formal engagement in a network of actors seeking to support integration of refugees by providing both social support functions and free training. As demonstrated, activation refers to creating legitimacy in relation to different purposes: in relation to the civic mission, by serving the members' interests; in relation to the market, by working strategically with public health-oriented marketing communications; and in relation to social welfare, by conducting activities aimed at integrating refugees in Swedish society.

## 6.5 Conclusion: Hybridity Beyond Identity Struggle

The organizational strategies of adaptation and activation help to explain how F&S is able to utilize its hybridity in order to maintain legitimacy in multiple institutional fields, in particular, the civic and commercial contexts. However, this also raises questions of how it is possible to develop the flexibility that enables an organization to shift between different goals and purposes without undermining the organization's legitimacy in the marketplace. An important aspect of the current case is seen in how F&S seems to have agreed internally on the importance of prioritizing market expansion, which involves managing issues of increased hybridity to handle disparate demands, as well as an expanding administration designed to maintain such a diversity of identities. Accordingly, there seem to be few critical voices within the organization expressing concern of the organizational legitimacy's becoming too flexible, which one might expect from a civically rooted organization under state-driven pressures of marketization. Rather, the F&S managers interviewed describe how F&S is evolving to meet the different institutional demands, such as adopting commercial strategies to expand in the market while promoting its central role in social integration or advancing its civic status by seeking to establish a stronger position in the non-profit sports movement (in which F&S until recently did not take a formal active part in).

While the increased hybridization has become formally established in the organization, it is notable that F&S's relations with state authorities have become more intense and, possibly, more sensitive. The two cases of state intervention in F&S discussed earlier in this chapter demonstrate the uncertainty that derives from F&S's hybrid arrangement and makes the organization unsuitable for traditional understandings of organizational conduct. Thus, in a broader perspective, the new regulations that F&S, as well as other NPAs, have been subjected to clearly demonstrate the broader social implications of hybridity in contemporary society and the tendency of state authorities to prioritize a corporate view of hybrid civic organizations since they apply corporate legislation, rather than prioritizing and shielding the civic nature of organizing, or for that matter embracing hybridity.

In this chapter, we have demonstrated two key strategies for an organization (like F&S) with a hybrid position in the marketplace to cope with institutional demands: adaptation and activation. As expressed in the case presented, both strategies are carried out with strong confidence and F&S management is continually voicing its belief in the legitimacy of its actions (even if some are contradictory, at least when seen from the outside). An important explanation for the confidence in F&S's organizational actions toward expansion and being flexible in its arrangement can be found in F&S's mission and the belief that F&S is responding to a moralizing discourse of a "higher mission" or different ethics that in turn legitimize hybrid conduct. This moralizing work performed by individuals within F&S to expand the NPA identity (cf. Lawrence et al. 2009) includes the construction of a fluid identity that appeals to a wider audience beyond those with an immediate interest or technical stake in the institution (Perkmann and Spicer 2008). Moreover, it endows F&S with a semi-religious appeal regarding its position in the market. Doing some "moral work" seems to be of key importance to the F&S organization when it comes to creating legitimacy for market actions, allowing the organization to gain market shares while holding onto core NPA values. Indeed, the "marketized" norms that have materialized in regulations, or in other stakeholder expectations, are neither embraced nor disregarded; rather, they are reformulated and justified in respect of this appeal. For instance, marketing campaigns can no longer focus on things

such as highlighting the lowest prices in relation to the competition but are instead reformulated to promote the opportunity for people to be part of something virtuous and noble that creates a better society for all.

We have also argued that the F&S organization manages to construct an organizational identity in which commercial and civic values do not merely clash, in what previous research has described as an “identity struggle”, but rather, these values become more effectively enmeshed, constituting a fluidness in which the organization is able to maintain and incorporate multiple organizational identities. Moreover, we argue that F&S is not an exception but rather a contemporary example of how hybrid organizations are developing innovative ways of utilizing their positions as “in-between” different spheres and missions. Similar trends can be viewed in relation to the development of corporate social responsibility programs and when organizations create ways of combining profit-making and non-profit purposes to enhance their scope in the market. Based on the insights from the F&S case, it emerges as essential for the successful hybrid organization to have a strong organizational mission to “do good”, which in turn facilitates new development and allows for more flexible and fluid organizational identity in relation to disparate institutional logics. Finally, it is notable that, despite state authorities and current legislation that seek to oppose blends of vaguely defined (organizational) identities in society at large, the current case shows how such new, external demands might actually work in the opposite direction and endorse an even more sophisticated hybrid organization.

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# 7

## The Importance of the Owner Relationship in Shaping Hybrid Organizations

Anna Thomasson

### 7.1 Introduction

It all comes back to the agreement between the owners and the company, where it says “along with corresponding activities” or something like that. We’ve used this passage maximally. It is sufficiently unclear to enable our work. (Management team member)

The owners can’t run the company, because that would take the power away from the CEO, at the same time as responsibility lies at the company level. That just doesn’t work! In that position, I feel you can no longer work as a managing director. Once they’ve set up a limited company, appointed a board and hired a CEO ... it’s the owners’ duty to step back and—once a year, perhaps twice—get feedback. But they can’t keep getting involved in the company and change the conditions. Therefore, I resigned. (Former CEO of a municipal corporation)

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The above quotes are from top managers of municipal corporations in Sweden. What these statements have in common is that they both refer to the relationship between the owners and managers of what can be considered a hybrid organization. In the case of these municipal corporations, their hybridity stems from their being fully owned by public sector authorities (municipalities) but organized, governed and managed as profit-driven private corporations. In addition, while these organizations provide services in a competitive market and are profit-driven, they are also expected to create public value and secure public interests.

The aim of this chapter is therefore to analyze how municipally owned corporations are governed and to what extent the owners consider hybridity in their governance of the companies they own. In order to fulfill this aim, case studies on the relationship between owners and their companies have been performed. Two different owners and their companies are studied. Studying different owners is considered here to be a way to create a notion of the extent to which governance strategies and processes might differ between local authorities. The quotes cited above earlier in this chapter indicate that there are differences, and the high degree of independence for local authorities further supports such an assumption. In addition to different owners, companies that provide different types of services have also been incorporated in the study. The idea behind this is to examine the extent to which the nature of the services influences the degree of hybridity as well as the relationship between owners and their companies. By this I mean the degree to which the type of services provided adds to, or for that matter decreases, the ambiguity and thus also the complexity of hybrid organizations. Previous studies show, for example, that services that are not exposed to competition are less profit-oriented (even when provision of those services is organized as an enterprise) than services exposed to competition (Thomasson 2009). Thus, choosing to organize a service as an enterprise is not the only factor that determines hybridity. Other factors can also play a role, the type of services being one of them.

This combination of values and goals (the market value of profit-making versus the public value of democracy) found in public enterprises is considered to lead to ambiguity as well as to create conflicts of interest within hybrid organizations and between these organizations and their

stakeholders (Thomasson 2009; Grossi et al. 2017). Such conflicts of interest are something that hybrid organizations struggle to manage—a struggle they often fail to master. Thus, it is not uncommon that one set of values and goals dominates the management and governance of these corporations, leading to mission drift (Alexius and Cisneros Örnberg 2015; Shaoul et al. 2012; Sands 2006) and loss of legitimacy (Grossi and Thomasson 2015). As the quotes illustrate, the ambiguity created by hybridity is not only an issue when managing conflicting goals and values but also when it comes to managing stakeholders and their expectations, including the owners.

The first quote comes from a company whose owners kept their distance after the services were corporatized and did not get involved with the company. In this case, it was up to the company's board and the chief executive officer (CEO) to govern the company based on directives from its public owners. However, as the quote illustrates, these directives were vague, and this was something that the CEO took advantage of. In private corporations, owners stepping back and leaving governance to the board and CEO is not unusual or problematic. But hybrid organizations are not private corporations. Room to maneuver can be a good thing, especially when the aim is to develop services or to offer a public alternative to privately provided services. Too much room to maneuver, however, can pose a problem. The governing politicians still need to be held accountable for the services provided and for protecting public values. In the case from which the first quote is taken, the CEO took one risk too many, resulting in financial difficulties and a need to reorganize the entire company.

The second quote provides us with a different picture. Here, we meet a company with owners that are too controlling and are actually the ones running the company. The CEO was even referred to as a "lame duck" by several of the board members. The owners decided everything, including budgetary matters and the types of activities the company was to perform. The owners did not trust the CEO and were of the opinion that his behavior was not in line with their interests. Thus, we have here an example of an agency problem, where the principal (the owner) does not trust the agent (the board and CEO).

Agency problems are believed to be inherent to companies as the idea of a company is that ownership and control are separated (Fama 1980;

Eisenhardt 1989). The relationship between owners and the board and CEO have attracted the attention of scholars for almost a century (Gedajlovic and Shapiro 1989; Aguilera 2005; Donaldson and Davies 1991; Eisenhardt 1989). One way to bridge the gap suggested by advocates of agency theory is the use of different types of control mechanisms (Fama 1980; Eisenhardt 1989). The board is one such mechanism, another is the annual general meeting (AGM). In the case referred to in the second quote, the board did not function as a control mechanism, as several board members did not share the owners' view and were unwilling to replace the CEO. In the end, the conflict between the owners and the board and CEO took up so much time and resources that the company had to dissolve.

What we have here are thus two examples of how the relationship between owners and their companies can take form. In the first, the owners were probably too distant and hardly made use of the control mechanisms available to them. In the second, the opposite was true, and the owners overstepped their boundaries and exerted more control than they should have. In both cases, however, the consequences were severe. Not only were the companies harmed, but the public values were also lost in the process. In the first case, public values were lost due to the company's financial losses resulting from bad management. In the second, public values were lost when the company had to be terminated without fulfilling its purpose, meaning tax money was lost. It is fair to say that, in neither case, public interests were protected.

Thus, the conclusion we can draw from the quotes mentioned earlier in this chapter is that neither too little nor too much control is a good thing. Rather, what is needed is to find a balance between control and freedom for the company to develop and exploit the advantages of being a hybrid organization. The need for such a balance is not unique to hybrid organizations. However, there is reason to believe that achieving this balance is more complicated in a hybrid due to the hybrid's ambiguous character. In hybrid organizations, it is not only the organization that is ambiguous, but also stakeholder relations and goal alignment. Due to their ambiguous nature, hybrids face different expectations and, thus, must constantly justify their existence internally as well as externally.

Especially problematic, perhaps, is the issue of ownership and control in situations where the owner (or one of the owners) is a public sector agency (Thynne 1994; Luke 2010). One reason for this is that the separation of ownership and control not only creates a problem with trust, but also breaks from the more traditional vertical lines of accountability found in politically governed organizations (Grossi and Thomasson 2015; Hodges 2012; André 2010; Bovens 2009). In public enterprises, horizontal relations between the political governance and the corporation (Grossi and Thomasson 2015; Bovens 2009) accompany the vertical relationships. If too much focus is placed on the horizontal relations and the vertical relations are not secured, there is a risk that core democratic values may get lost in the process. Thus, in a hybrid setting, it is not only about striking a balance between owner and company but also about ensuring that citizens can hold governing politicians responsible without compromising the integrity of the company. This requires that both the owners and the board members and CEO understand the hybrid nature of the municipally owned corporation. Again, as the two quotes illustrate, this is not always the case.

As the distance between ownership and control, and thus the agency problem, is considered to be inherent to the corporate form (Aguilera 2005; Fama 1980), there is a need to find ways for the owners to bridge that distance without compromising the integrity of the company. This is especially important as losing integrity means a loss of the advantages of the company form in the process. The question that comes to the fore is thus as follows: Is it at all possible to find this sought-after balance between trust and control in a hybrid setting, or is the hybrid's inherent ambiguity simply too complex to manage?

The question is relevant given the increasing number of hybrid organizations and the fact that they are responsible for large financial public values and must therefore be governed in ways that ensure transparency as well as public interest. One place to seek answers to the question is in-depth study and analysis of the relationship between owners and hybrid organizations. This could help us to understand the challenges hybridity poses for governance and how owners and company directors can manage the ambiguity of hybrids.

In Sweden, municipalities and county councils are free, within the boundaries of the legislation, to decide how to organize and provide public services. This has resulted, over the years, in a wide range of solutions being developed and implemented at the local level in the public sector. One solution is the corporation, and there are currently approximately 2000 companies owned by municipalities and county councils across the country (Thomasson 2013). The local context of the Swedish public sector thus provides us with a great opportunity to study the municipal corporate form to further our understanding of how these organizations are governed.

The owners in focus in this study are the City of Helsingborg (Helsingborgs Stad) and the Region of Skåne (Region Skåne). The first is a municipality and the second a county council. This is not a problem, however, since municipalities and county councils fall under the same legislation and thus, legislatively, have the same responsibilities and governance instruments available to them. Therefore, in theory, there should not be any difference between them with regard to how they govern their companies.

To facilitate the analysis, the focus is on companies in which the owners own all or a majority of the shares, in order to avoid the complexity of having to discern and distinguish between the interests of different owners. The results from the case studies are then compared and analyzed, and the implications of differences in ownership style discussed.

I begin, below, with a brief description of the Swedish municipal context and legislative framework for municipally owned companies, followed by a presentation of the two owners and the respective companies in focus for the analysis. This is followed by an analysis of the relationship between the owners and their companies, and the chapter concludes with a discussion of the results and the implications of these results.

## 7.2 The Municipal Context

Pursuant to the new Swedish Municipal Act (SFS 2017: 725), local governments in Sweden have a high degree of independence. This includes, among other things, the freedom to decide how they want to organize the

provision of services. It is in this light that the development of the use of the corporation for local service provision should be considered. Organizing the production and provision of public services in corporate form has a long history in Sweden, but the use of the corporate model received a boost in the mid-1980s as the influence of new public management (NPM) grew in Sweden (Erlingsson et al. 2014). Since then, the use of the model has become more and more popular, and the number of corporations owned by local governments in Sweden is currently estimated to be around 2000 (SCB 2011). The corporate model for public services is mainly used for technical services, infrastructure and energy but can also be found in other areas (SCB 2011). The combined turnover of these 1700 corporations is estimated at SEK 190 billion (SCB 2011). The corporate model is thus a popular way to organize and provide public services in Swedish municipalities and county councils. Traditionally, it has been a model preferred by social democrats, but municipally owned corporations are found in municipalities and county councils regardless of political majority.

Regardless of ownership, the services provided, or whether they are listed on a stock exchange or not, all corporations in Sweden fall under the same legislation (Stattin 2007). At the same time, corporatized public services also have the same obligations as public services in general do, including demands on transparency. The combination of legislation and regulations is both interesting and gives rise to conflicting demands and expectations. The governance mechanisms available for public sector corporations are also the same as those for private sector corporations. The municipal owner therefore has the ability to control the companies it owns through the AGM by appointing board members and auditors, and through directives to the board.

However, due to the fact that the owner is a municipality and not a private person or company, there are some differences in praxis. First, in the case of municipalities, it is the municipal council (or “city council”) that acts as owner. The municipal council is in effect a municipal parliament made up of elected members from the different political parties voted in through municipal elections. A council committee puts forward names of people to sit on a municipal company’s board of directors and to serve as its auditors for the council’s general assembly to vote on. The

appointment process is entirely political since the practice, in Sweden, is for local governments to appoint politicians to the boards of the corporations they own. Parties with seats on the council therefore nominate their representatives to the board, elect them and then suggest them to the AGM. Another difference in praxis is that municipal companies have two sets of auditors—one chartered accountant, normally procured from an audit firm, and one non-professional auditor, the latter being a politician appointed by council to serve on the municipal audit committee. The municipal audit committee consists of politically affiliated auditors responsible for auditing how the goals set by council are followed and executed by agencies and boards of the municipal organization.

In addition to the municipal council, the municipal executive board (a smaller board of representatives from both the majority and opposition parties in the municipality that hold the executive power) plays an important part in the governance process. According to the Municipal Act, the municipal executive is required to monitor company performance and ensure that it is in line with the owner's directives and the purpose of the company. It is therefore common that companies report directly to the municipal executive and not to council, and it is mainly the members of the executive who are acquainted with and up-to-date on what is going on in the companies.

## 7.3 Cases

### 7.3.1 The City of Helsingborg

Situated in northwestern Skåne in the south of Sweden, with a population of approximately 140,000, Helsingborg is Sweden's eighth largest city. The municipality, the City of Helsingborg, is currently governed by a coalition consisting of liberal, conservative and right-wing parties in collaboration with the greens. The city has a tradition of frequently (at almost every election) changing between left- and right-wing majorities. It currently owns or co-owns eight municipal corporations. Along with other municipalities in the region, it also owns a majority share in *Nordvästra Skånes Renhållnings AB* (NSR), a waste management com-

pany serving Northwest Skåne, Nordvästra Skånes VA (NSVA), which supplies water and water treatment services to Northwest Skåne, and Sydvatten, which provides drinking water to a large number of municipalities in Western Skåne.

The focus in this chapter, however, is on the relationship between the City of Helsingborg and two of its other, fully owned companies: *Helsingborgs hamn* (the Port of Helsingborg) and *Öresundskraft* (Öresund Power). The reason for this is, first, that both of these companies operate to a large extent in deregulated markets, with their financial resources derived mainly from fees paid by customers. Thus, the setup of the companies is similar to that of private corporations. Helsingborg's other municipal companies include *Sundspärlan* conference and event center and *Helsingborg Arena and Stage AB*, which fall into the area of culture and tourism and thus have a different customer relationship, different financial solutions and are smaller in size and financial turnover. The city also owns *Helsingborgs hem*, Helsingborg's housing company, which is also excluded here since municipal housing companies and the financing of their activities are regulated by specific legislation. Including these firms would complicate the analysis and take away from the focus and the purpose of this chapter.

The empirical material presented was gathered through interviews with representatives from the boards of the companies and from the city. Formal documents such as ownership policies and owners' directives have also been studied.

The next section gives a description of the City of Helsingborg's ownership strategy and corporate governance policy, before I move on to present accounts of the experiences of board members from the companies studied, starting with experiences from the Port of Helsingborg.

### **Ownership Strategy and Policy for the Companies Owned by the City of Helsingborg**

The City of Helsingborg has a policy for corporate governance that is accessible on their website. The same webpage lists the owner directives for all companies owned by the city. These documents make evident that



the companies owned are considered a tool for the city to achieve its vision and strategy. Thus, on paper at least, there is a clear connection between the policy and directives given to the companies. It should not be forgotten, however, that the companies, especially those focused on in the study, are expected to generate a profit and to be managed as private corporations. The policy furthermore describes how the owner follows up and evaluates company performance. For example, it stipulates that the owners have dialogue meetings with the companies twice a year. Besides these specific issues, the policy largely reflects what is stated in current legislation.

The Port of Helsingborg: The reason the City of Helsingborg decided to maintain ownership of the city's port is that it wants to maintain control and influence over its port infrastructure and how the harbor and its infrastructure are developing within the city under political governance. According to the Port's board chair, exactly what the city wants differs over time depending on the interests of the governing majority. That is, the directives given to the company and the interests that dominate the board are a reflection of the interests of the political governance. Thus, the company is exposed to and affected by the fact that there is an election every four years. When a change in governing parties occurs, there is always a risk that the strategy and focus of the company will also need to change. In this respect, the company is more similar to a public agency than a private corporation.

This is illustrated by the following example given by the board chairperson during an interview. In the current term of office, the governing majority has developed a vision for the city and the owners' directives to the company are based on that vision. The opposition does not support this vision, however, meaning that if the party in power changes after the next election, the directives could also change. The role of the board is not to discuss politics but to ensure that the CEO manages the company in line with the interests of the owner as expressed by the directives. The directives also clearly state the goals and purpose of the company and relate to the overall strategy of the city.

This is something that the chairperson stressed during the interview. She also stressed that normally politics are not discussed during meetings, where the focus is on what is in the best interest of the company and its

owners. In addition to addressing the development of the harbor, the owner directives also state that the company should make a profit every year, which means that, besides considering how to develop activities in line with the interests of the city, the Port's board must ensure that this development does not negatively affect the financial situation of the company. The company must remain competitive and thus it is important to take into consideration the business side of Port activities when the board and CEO make decisions.

The Port's chair, vice chair and CEO meet with representatives from the owner a couple of times per year to discuss issues such as current and future challenges and development of the company, along with the owners' view of the company and its performance. Based on the outcome of these meetings, the CEO and the managerial team develop a strategy and business plan for the coming year. During the interview, the chairperson stressed the importance of there being a clear line between the decisions made by the governing politicians in the city council, the content of the owners' directives and the strategy of the company and activities actually conducted by the company.

The chairperson interviewed also expressed that, in her experience, the owners have shown more interest in the company over the last couple of years. The reason for this is that in 2010 the company acquired an IT company in Karlstad, another Swedish city. The reason the City of Helsingborg bought the IT company was because it supplied the Port of Helsingborg with an IT system vital for organizing and conducting the harbor's current activities. The acquisition was reported to the Swedish Competition Authority by one of the Port's competitors, however, and an investigation ensued. The reason why it was reported and later investigated was that the acquisition was considered as falling outside the interests and expertise of the municipality as stated in the legislation. Since then, the owners have been more observant and clearer in stating and defining the municipal interest in the statutes of the companies they own, and they revisit these statements regularly to ensure that they remain valid. The Competition Authority's investigation was later dropped and the IT company sold, but the event caused a change in the owner's behavior in relation to the companies they own. The change was likely also spurred by a similar issue that emerged in NSR, the waste management

company, where the municipal interest and purpose of the company were discussed in relation to whether the public procurement legislation should apply between the company and its owners. In the case of NSR, an investigation and subsequent court ruling resulted in an extensive reorganization and redefinition of NSR's strategy as well as its business plan.

The experience of the Port of Helsingborg board is that it is mainly members of the city's executive board who have knowledge about the companies owned by the municipality. Members of the larger city council are generally less aware and less interested in the company and pay little or no attention to its annual statements and financial reports. According to the Port chairperson, the low level of interest is most likely due to the company being responsible for services and activities that are of less political interest and sensitivity than areas like education or care of the elderly. This is in line with reports from other studies on municipal corporations and thus not unique to this specific company (Erlingsson et al. 2014).

The chairperson can understand that local politicians are more interested in issues that citizens seem to prioritize, but feels this is regrettable, especially since in her view the Port conducts important activities for the city and contributes financially to the municipality in the form of annual dividends. The plan is to try to change this, however, and to increase interest in these companies among elected politicians. To accomplish this, the City of Helsingborg plans to arrange the AGMs of all of its companies on the same day. All members of the city council will also be invited to these meetings. In the end, it is the council that is responsible for making decisions related to the development of the city and planning for the future of the city. The city's companies and the services they provide play an important role in this.

The Öresund power company: Öresund Power (*Öresundskraft*) is an energy company that delivers district heating, owns the infrastructure used to deliver electricity and takes part in the development of more environmentally friendly techniques for heating, including biogas. This is something that they do in close collaboration with some of the other companies owned by the city, for example, NSR. The company is also responsible for the city's broadband infrastructure. Together, this means

that Öresund Power is not only responsible for developing sustainable infrastructure but also helping to make the region an attractive place for businesses to invest in. The social goals of the company are thus multifaceted and, adding to this, according to the owner's directive, the company also has a responsibility to make a profit and pay dividends to the city.

As in the case with the Port, the directives from the owner to the company are based on the vision for the city. Furthermore, according to one of its board members, Öresund Power supports city development in general since its annual dividends provide resources that the city can use to develop other services that it provides. The city decides how large the dividends should be. It is, however, not entirely up to the company or the city to decide the fee levels charged to users of Öresund Power's services. Because the Swedish energy and electricity market is deregulated, the company must consider the overall situation in the market and report to the Swedish Energy Agency.

According to Öresund Power's board chair, the directives from its owners are renewed after an election. In practice, this means that they are revised every four years. In collaboration with representatives from the owners, the board and the CEO develop the current directives and thereafter the city council formally votes on them. In addition to the purpose and mission, the directives contain goals that reflect how the company can and should participate to realize the city's overall strategy.

According to the experience of Öresund Power's chairperson, besides this, the city council's involvement is limited, and the general view is that issues that concern the company should not be politicized. One reason for this is to ensure the long-term development of municipal companies. Öresund Power's board chair agrees with the Port of Helsingborg board chairperson with respect to the level of interest in the municipal company among city council members. He considers the interest to be limited and has first-hand experience of this as he was a deputy mayor of the city prior to the last election. He also noted during the interview that he normally has no discussion with the executive board either. Instead, Öresund Power and all of the other fully owned companies the city has are governed by the board of the respective company. Several of the members of the boards of these companies are also members of the city's executive board, but there are also others as, for example, the city's CEO. So,

although there is no formal connection between Öresund Power's board and CEO and the city council, there is a connection through representatives from the city council and the city's leading civil servants.

In spite of the policy to not discuss politics on the board, there appears to be more political discussion on the energy company's board than there was on the Port of Helsingborg board. The members interviewed, including the Öresund Power chairperson, describe situations where there have been political differences between the board members. According to one board member, there seems to be a dividing line between older and newer members of the board, where older board members tend to focus more on profit and less on protecting the environment and investing in environment-friendly techniques, and younger and newer board members are more interested in these environmental aspects. There is thus a dividing line between financial interests and other types of interests. This is something that the Öresund Power chairperson also experiences in his own party, where the expectation is that Öresund Power should operate in a sustainable manner. At the same time, as board chair, he has to secure the financial aspects, the need to make a profit, while keeping in mind that some of the services provided by the company are regulated by the Swedish Energy Agency and therefore not fully under the control of the board and the CEO. Balancing all of these interests and explaining them to non-initiated peers in his political party is not always easy.

### **7.3.2 Region Skåne**

Region Skåne is the name of the region and regional council that governs Sweden's southernmost county, Skåne. Its main responsibility is to provide health care to people living in the region and it is therefore responsible for all of the region's primary care units and hospitals. Besides health care, Region Skåne is also responsible for culture and public transport and working with business development and making the region an attractive destination for tourists. In terms of their scope and budgets, however, these other activities and services are all smaller than Region Skåne's health-care services and health-related activities.

While the Regional Council is currently led by a left-wing coalition, a coalition of right-wing parties governed before the last election. It is common that the governing parties change at every election.

Ownership strategy and policy for the companies owned by Region Skåne: In 2014, the region changed its corporate ownership structure to form a concern with one parent company, Region Skåne Holding AB and 13 subsidiaries. The main reason for this restructuring was to clarify and formalize the governance of the companies owned by the region and make it more efficient through co-organizing the companies owned by the region. Another reason was that Region Skåne wanted to become a more active and professional owner.

In 2016, a new policy for governing the companies owned by the region was drawn up and adopted by the Regional Board. The new policy clarifies and describes the relationship between owner and company. The main part of the policy text is based on existing legislation and contains little indication of what Region Skåne actually wants to achieve with its ownership or what it requires of the companies, with the exception of the parent company, for which a purpose is stated. There is also a paragraph that specifically addresses the purpose of co-owned companies.

Only 7 of the noted 13 subsidiaries are fully owned by the region or where it owns the majority of the shares. One of the fully owned companies is the region's *Folktandvården* (Public Dental Care) is one of the cases described here. The other case presented is *Skånes Dansteater* (Dance Company), in which the region owns a 90% share and is thus the dominant owner. The Dance Company's other owner is the City of Malmö. It seems as if it is predominately smaller and, from a political viewpoint, has less "significant" or "interesting" services that the region has chosen to organize as companies.

The criteria used to select these two companies were similar to the criteria used for company selection in the case of the City of Helsingborg. Both the Dance Company and Public Dental Care have fee-paying customers and, although the Dance Company does receive taxpayer funding, it does compete with other cultural events. The situation for these two companies is thus similar to that of the companies studied in the case of the City of Helsingborg, enabling comparison between the cases.

As in the case of Helsingborg, the empirical material was gathered mainly through interviews with board members and representatives of the owner. In the case of Region Skåne, the interview data was also supplemented with studies of formal documents and reports.

The Dance Company: Region Skåne's Dance Company (Skånes Dansteater) is responsible for developing dance and dance-related activities in the region. According to the owner directives, the Dance Company's focus should be on securing dance performances of high artistic quality. According to the Dance Company's board chair, as the majority and dominant owner, Region Skåne sets the tone for how the company is governed. In the chairperson's experience, however, neither of its owners is active or shows an interest in the company's performance. She feels instead that, as a small company, they have difficulty competing with the Region's other areas of activity, especially health care, and that their activities are also of less political interest. During the interviews, the chairperson noted that they sometimes actually have a hard time setting up meetings with owner representatives to discuss matters concerning the company, and the company only meets with the owners once a year.

According to the chairperson, the focus of the Dance Company board meetings is generally financial statements and the company's budget. There have not been any political differences regarding how to use the financial resources, but there is an issue that has divided politicians along political party lines and that is whether they should allow sponsoring. The company is financed through contributions for cultural activities from the national government, and this money is distributed to the different cultural organizations in the region by the Regional Council. In addition to the national funding, the company can also apply for funding from various institutes.

Less focus is placed on Dance Company activities, as the board members feel that the professional dancers are better suited to make those decisions. The interviewed chairperson did, however, stress how they work in the development of the services they provide and reach new audiences and groups. It is difficult to measure performance and outcomes in cultural activities, and the company therefore tries in other ways to show that culture can make a difference and that what they do matters. For example, company projects include developing classes for physically

challenged individuals and people with Parkinson's disease, both areas where dance is considered to have a potentially healing effect. Making dance activities more inclusive and accessible is thus one strategy for demonstrating the relevance of the company and to try to attract financial resources.

**Public Dental Care:** The region's Public Dental Care company (*Folktandvården*) is responsible for providing dental care to people living in the region. In Sweden, dental care is deregulated, meaning that most dental care is provided by private companies, with only a few dental care providers being owned by the public sector. Skåne's Public Dental Care is one of them. The fact that the market is deregulated is, according to one board member, a good argument for the service being organized and run as a company. A company has its own financial statements. So the financial resources and activities of dental care-related services can therefore be kept separate from the Region Skåne's other activities. Keeping the financial resources separate makes it possible to show that Public Dental Care is not subsidized by the Regional Council, thus avoiding unnecessary criticism and suspicion of unfair competitive advantage in relation to private competitors.

According to one of the members of the board, it is important that the board discuss and keep track of market development. Public Dental Care operates in a deregulated market with competition. In order to survive, the company needs to protect its position in the market and attract customers. If they don't, they may end up losing money. The company currently makes a small profit, but the margins are slim.

Members of the Public Dental Care board share the experiences described by the Dance Company chairperson regarding their relationship with the owner. Thus, in the case of Public Dental Care, the perception is also that the company is small in relation to health-care services and receives little or no attention. Region Skåne is not perceived as an active or interested owner and instead is considered to have a tendency to leave the companies it owns to govern themselves. Furthermore, routines or praxis that supports a regular dialogue between the company and the owner are lacking.

This perception is supported by reports from the auditors who, on more than one occasion, have criticized the region for this, in spite of



the board having a legislated duty of countenance. The external auditors specifically stressed a need to clarify who in the region is responsible for corporate governance and were of the opinion that also the owner's directives needed clarification regarding when the company must consult the owners before making a decision. This is also problematic considering that Public Dental Care's turnover, though a lot smaller than that of other areas of health care, amounts to SEK 1 billion. A 2016 report from another auditing firm presents a similar picture, with the auditors behind that report specifically stressing the need to improve the dialogue between the owner and its companies (Deloitte 2016). The auditors also stress the need to establish routines to ensure that the Regional Board lives up to its countenance duty.

One of the Public Dental Care board members described the lack of clear directives and owner interest in the company as a problem since it opens the way to the interests of strong individual civil servants looking to strengthen their own areas of responsibility. Thus an absent owner seems to create a vacuum that is filled by informal leaders, carrying the risk that these leaders become too dominating and have a negative influence on the development of the company, especially if company board members find it difficult to stand up to them or themselves lack an understanding of what it means to govern a company. This can lead to potential conflicts as illustrated in the second of the two quotes in the introduction to this chapter. As it happens, that quote was from one of the companies Region Skåne used to own.

In conclusion, it seems as if the political governance of Region Skåne has been unable to shape a corporate governance system that ensures owner presence and control. One would think that having one holding company responsible for governing the 13 subsidiaries would help to clarify responsibilities and improve the control and dialogue with the companies. In the case of Region Skåne, however, this seems not to be the case. How governance of the companies is conducted within the formal structure of a concern seems to be more important than the structure itself. Based on the interviews and audit reports, the region's political governors seem to pay little attention to the companies. One possible

explanation for this may be the fact that the services corporatized are services that are of less political interest than primary and hospital care because they attract less interest from the general public. It is also possible that, rather than improving control through a clarification of responsibilities, the choice to have a holding company responsible for all governance of the subsidiaries has increased the distance between the governors and the governed politicians and the companies. When compared with the City of Helsingborg, which does not employ a similar concern, we see that there is no intermediary between the political governance of the city and its municipally owned companies, meaning that the politicians on the executive board have a relationship with each and every company. In Region Skåne, the holding company increases the distance and thus may also impair the ability of the Regional Board to fulfill their countenance duty.

## 7.4 Analysis and Discussion

So far in this chapter, the focus has been on describing two owners and the relationship each has with two of their companies. Though the two owners are a county council and municipality—the City of Helsingborg and Region Skåne, respectively—they both operate under the same legal framework, making the cases comparable. The only difference is that Region Skåne has organized its companies in the form of a concern with a holding company responsible for the governance of the subsidiaries.

When analyzing the two cases, an interesting aspect emerges—that in both the relationship between the owner and its companies seems to have two dimensions. One dimension is the formal corporate governance system as stipulated in the legislation; the other is how, within that system, each owner has developed and shaped the relationship with the companies it owns. The latter is of particular interest, as it is here that actual differences between the cases studied emerged. The following sections of the chapter focus on these two dimensions and the factors that, within the scope of each dimension, influence the relationship between hybrid organizations and their owners.

### 7.4.1 The Formal Dimension: The Corporate Governance System

The Swedish Companies Act (SFS 2005: 551) stipulates the formal organization of corporate governance, including how the responsibility for a corporation is divided between its owners, the board and the CEO. In the Companies Act, we also find the formal mechanisms of control available to company owners. For municipally owned companies, these control mechanisms are supplemented with the ability for owners to issue directives. In addition to the Companies Act, the Municipal Act (SFS 2017: 725) is also of relevance and stipulates that owners have a duty of countenance and that the public purpose for all municipal companies should be specifically stated in the company statutes.

When looking at the two cases and how each owner uses the formal governance mechanisms available to them, one main difference comes to fore, and that is how the two owners organize their ownership. Region Skåne has opted to establish a concern with a holding company responsible for the governance of each of the 13 companies the Region owns. The holding company acts as an intermediary between the Regional Board formally responsible for the control of the companies owned by the Region. The City of Helsingborg, on the other hand, has no such solution; instead, each company reports directly to the city executive board.

When comparing the two cases, it would seem that having an intermediary creates distance between the owner and the companies and, in the case of Region Skåne, the perception among boards and auditors that the owners, the governing politicians, are not as active or present as they should be. However, the organizational solution of employing a concern is probably not the only factor that influences how and the extent to which the Region, as owner, actually governs the companies it owns. Other aspects that likely influence this perception and the analysis drawn by auditors in the case of Region Skåne also emerge from the comparison of the two cases. One is how the companies use the owner's directives, and another is the lack of dialogue between the governing politicians and the companies. When comparing the two cases, the perception one gets is that the City of Helsingborg's use of directives appears to be more

formalized than that of Region Skåne. In Helsingborg, the directives are developed in a dialogue between governing politicians on the executive board and company board members. In Region Skåne, no such dialogue takes place. In Helsingborg, the regular meetings between the board and the owners likely improve the relationship between the two, as well as enable the owner to fulfill its countenance duty.

There is also a difference between the cases in terms of transparency and openness. In the case of Helsingborg, the ownership policy and directives are easy to find and access on the city's website, and the relationship is formalized with regular meetings and scheduled processes. Combined, these factors make it easy to scrutinize the owners' governance. In Region Skåne, no formal process exists; at least it is not documented, and directives and policies are not as easily accessed. These factors hinder transparency and scrutiny and make it more complicated to hold governing politicians accountable. Also, the structure, with a concern and holding company acting as an intermediary, poses a risk of impairing the ability to hold the political governors accountable as it blurs the lines of responsibility.

To summarize, the analysis shows that even though the Municipal Act recognizes the need for public authorities to ensure control and public purpose, it is predominately the Companies Act that legislates the relationship between the owners, board and CEO. The Companies Act was constructed with profit-oriented corporations in mind and therefore represents corporate values, protects investors and does not consider democratic values or public values. Thus, in terms of legislation and regulations, the formal corporate governance system only marginally protects democratic values and does not ensure transparency. The informal relationships and what occurs within the realm of the legislation become interesting and also relevant for understanding the extent to which democratic values and public interests are protected. This could be seen already to some extent in the analysis of the formal relationship with respect to the differences between how the owners use directives and shape the dialogue with the company boards. The next section takes a closer look at the informal aspects of the owner-company relationship in the two cases.

### 7.4.2 The Informal Relationship: The Second Dimension of Hybrid Ownership Relations

The formal corporate governance system as stipulated in the legal framework is one dimension, another is how the owners, board members and CEO and top managers act within that system. When comparing the cases, it seems as if it is here, in the non-formalized processes, that there really are differences between and within the cases, as different boards seem to face different challenges depending on the type of services a company provides and how these services influence the company's hybridity. To examine this more informal dimension thus seems not only more interesting but also more fruitful.

The informal relations that emerge from the case studies as important are how the ownership dialogue is shaped and what occurs during that dialogue, the board meetings and discussions that take place there and, finally, the relationship between the owner and the board members and the CEO. If we begin with the dialogue with the owner (political governance), we see that in the case of Helsingborg, dialogue occurred on a regular basis. The dialogue that focuses on revision of the directives and how to express the role of the companies in the directives seems especially fruitful. The perception given during interviews is that this dialogue increased the board members' (particularly the chairperson's) understanding of the role the company they managed played in the city's strategy and how the company could contribute to create public value. As noted earlier, no such dialogue occurred in Region Skåne, and the perception gained from the interviews was that it was more difficult for the board members of the companies in that case to understand their purpose and how the company contributed to the overall strategy of the county. What was clear, however, was the public purpose of the companies. One reason for this could be the nature of the services provided (dental care and culture), rather than the purpose having been communicated in a clear manner. As stated at the beginning of the chapter, it may be that it is not only the choice to organize the provision of public services as an enterprise that contributes to create ambiguity in hybrid organizations but also the nature of the service provided by that enterprise. Another interesting aspect that emerged in the case of Region Skåne was how the lack

of governance opened the way for managers and CEOs to influence the strategic direction of the company. This shows how formal governance influences informal relations and how clear directives and an established informal or, for that matter, formalized dialogue with the owners may be a way to mitigate the risk of mission drift.

If we turn our focus to the dialogue between board members, this study does not provide us with enough data to conduct a more in-depth analysis. What we can see, however, is that when there is discussion during meetings regarding a company's purpose and the direction it should take, political aspects are likely to surface. To what extent and in what ways they surface seems to depend on the services provided by the company. The type of service provided by a municipally owned company thus seems to influence the hybrid character and political dimension of that company. The question is—to what extent is that preferable? Previous research on boards of municipally owned companies seems to indicate that the general idea among board members is that the discussion of politics during meetings is not allowed; the focus is on consensus and not political conflicts (Svärd 2016; Thomasson 2009). Thus, another question is—to what extent is this perception in line with the hybrid character?

What appears to be behind this idea is that the Companies Act stipulates that board members should not say anything that might harm the company. Underlying the idea is in turn that, if the company is harmed, the owners risk losing their investment. However, municipally owned companies are companies owned by a public authority governed by elected officials. They are not profit-driven companies that must consider the financial interest of the owners. Since the owners are the citizens of the municipality or county, public and democratic values should instead be a part of these companies. For politicians on a company's board to discuss the public purpose with the board may therefore not be contrary to the best interests of the company or the owners. Rather, doing so may actually be necessary to uphold the legitimacy of the company and enable the citizens to hold the political governors responsible, especially if the protocols from board meetings were to be published. This is, of course, a controversial point but is also one that needs to be addressed, because what happens if the public interest and democratic values are not fulfilled?

Can these companies then be considered hybrid organizations or are they merely corporations with a municipal owner?

In order for companies owned by local authorities to be hybrid organizations, they need to not only incorporate corporate values but also ensure that democratic values are protected. As the formal corporate governance system of these organizations, at least in Sweden, is to a large extent based on corporate values, there is a need to ensure that the political, public dimension of these companies does not get lost. One way to do this may be to develop the informal mechanisms.

The problem with informal mechanisms is, as the name suggests, that they are informal and thus harder to secure and standardize. With the high degree of independence of local authorities in Sweden, it may be difficult to ensure democratic values in municipally owned corporations if we are to rely on informal governance mechanisms alone. In order for owners and board members to recognize the need to develop informal governance mechanisms, there is also another aspect to be considered here—knowledge. If hybridity is to be fully explored and exploited, a company's owners and board members need to be aware of the specific hybrid character of municipally owned companies, and they need to learn how to govern a hybrid organization (Knutsson and Thomasson 2017).

## 7.5 Concluding Remarks

In this chapter, I have compared two cases of ownership of municipally owned companies and analyzed the influence of owners' governance on the hybrid nature of these hybrid organizations. In order for a municipal company to fulfill its hybrid mission, public and democratic values need to be protected and incorporated in the governance of these organizations. The way the governance system is constructed today, formal governance mechanisms do not ensure public interests or democratic values. In the cases where these interests are protected, it is because informal mechanisms have been developed that secure them and, for that to happen, owners and board members need to have knowledge about the hybrid character of these organizations (Knutsson and Thomasson 2017).

The fact that informal mechanisms become central for securing public interests and democratic values shows how vulnerable this dimension of the hybrid organization is. This is especially true in a decentralized system like the public sector in Sweden, where local authorities have a high degree of independence. It also helps us to understand why these organizations have been criticized for lacking accountability (Grossi and Thomasson 2015) and for finding it difficult to avoid mission drift (Alexius and Cisneros Örnberg 2015).

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# 8

## Logics and Practices of Board Appointments in Hybrid Organizations: The Case of Swedish State-Owned Enterprises

Susanna Alexius, Jenny Cisneros Örnberg,  
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### 8.1 Introduction

The governance of hybrid organizations involves a range of challenges. One such challenge concerns the people that embody the hybrid organization and the capabilities of these people to represent and handle the

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complex missions and potential value conflicts at stake. A closer look at the processes of nomination and recruitment of key actors in hybrid organizations—such as CFOs, managers and board members—is relevant as these processes shed light on high-held ideals for hybrid governance and the human resources seen fit to handle complex hybrid missions.

This chapter offers insights into the governance of Swedish state-owned enterprises (SOEs). All enterprises contain goal complexity, which can lead to management problems (March 1962). Publicly owned enterprises, however, stand out as an interesting organizational category in this respect, and there is also variation among them according to their degree of hybridity. By definition, SOEs are hybrid organizations due to their dual operational logics—political and commercial—stemming from the public ownership of limited companies. The Swedish state portfolio contains 40 wholly owned and 8 partially owned companies (Government Offices of Sweden 2017<sup>1</sup>). Of the 48 Swedish SOEs at the time of writing, the majority (51 percent) have mainly commercial objectives, while only a small number (22 percent) have specifically government-commissioned social “public policy assignments”. The Swedish state has the outspoken aim of being an “active and professional” owner by generating economic value in its enterprises (Government Offices of Sweden 2017). In addition, there is an outspoken political ambition for these 48 firms to be seen as national and international role models, at the forefront of gender equality and sustainability (Government Offices of Sweden 2017).

This chapter seeks to present relevant issues related to the board appointment process performed by civil servants in close cooperation with the minister and state secretary in the Swedish Ministry of Enterprise and Innovation.<sup>2</sup> We take particular interest in the practices and thoughts of the civil servants who work with board appointments and analyze how they handle the two main and potentially diverging logics at stake—the political and the commercial—in their day-to-day work of appointing the board members of Swedish SOEs.

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<sup>1</sup> In June 2018, there are now 39 and 7 after Apoteksgruppen was sold.

<sup>2</sup> Although not studied here, the role of the Prime Minister’s Office is also vital as they must sign off on all proposals.

The backdrop to our case is the historical transition from traditional public administration (PA), to new public management (NPM) regimes of governance and further to the emerging post-NPM era of “new public governance” (Osborne 2006; Almqvist et al. 2013; Ivarsson Westerberg 2017). Up until the early 1980s, the dominant logic of the public sector was what is commonly referred to as “traditional” PA, where politics and administration were not clearly separated, and the appointment of public representatives was based mainly on political discretion, hence a political logic. Starting in the 1980s, however, there was a shift toward NPM ideas with an increased emphasis on the autonomy of managers and public organizations, efficiency, value for money, market orientation and decentralization (Hood 1991).<sup>3</sup> The new governance mode aimed for a general separation of politics and administration. According to this paradigm, and as we shall learn in this chapter, the appointment of public representatives became increasingly justified with reference to educational and other professional requirements. In practice, this brought about a marketization of the processes of board nomination and recruitment as external executive search firms were consulted and more emphasis was placed on ensuring effective provision of expertise to companies’ boards of directors. NPM also meant a greater emphasis on the commercial skills and track record of candidates.

The emerging mode of new public governance (NPG) can be seen as a response to NPM-oriented developments in the public sector (Osborne 2006). NPG has been described as a revisiting and return to more traditional public sector values (such as equality and diversity) with a stronger focus on democracy, and this mode of governance departs from the perspective of networks of organizations. The motivation behind NPG is the enhancement of the quality and innovation capacity of public policy and services (Klijn and Koppenjan 2012), as well as the democratic legitimacy of decisions (Sørensen and Torfing 2007). Under this emerging paradigm, the appointment of public representatives, such as SOE board members, has been increasingly justified with reference to transparency

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<sup>3</sup> Other influential change processes that took place around the same time were (1) the opening up of closed markets (with Sweden joining the EU in 1995) and (2) the separation of duties of the state (i.e. separating the roles of owner and regulator of SOEs).

of the appointment process, the media and public awareness and independent scrutiny by external experts (Sancino et al. 2019). However, despite outspoken aims of value heterarchy—that is, equal attention to all values and goals in the multifaceted mission of most public organizations—a study of the ongoing performance management reforms in the corporate governance of Swedish SOEs found that, in practice, financial values still dominate over non-financial values (Alexius and Cisneros Örnberg 2015, see also Espeland and Stevens 1998).

## 8.2 Methods

Methodologically, this case study was inspired by previous studies of dilemmas in company boards (Kallifatides et al. 2010). The findings are based on qualitative analyses of documents and interviews with key actors (see list in reference section), focusing on the daily work of civil servants responsible for board nominations at the Ministry of Enterprise and Innovation. (In addition, although not reported on directly here, we have observed the annual board member seminar 2016 for the board members in the SOEs). The interviews were conducted in Swedish and transcribed verbatim.

## 8.3 A Global Process

One of the key informants in this study, a senior civil servant in the Ministry of Finance and Ministry of Enterprise and Innovation for the past 15 years, has followed the development of the governance of SOEs firsthand. He recalls how things were very different back when he started (Interview 2015-04-10):

At that time, when I started working with the SOEs in 2004, there were MPs [members of parliament] on the boards, government secretaries (vice-ministers) on the boards, government officials on the boards, former politicians on the boards. So there was a closer relationship between the owner and the boards, for better or for worse. Looking at board composition

in 2004, there was quite a lot of politicization [...] There were 6 state secretaries who were board members, there were about 20 MPs. So you had a real mix in both regulation and ownership: “Are you the owner? Are you a regulator? Are you in charge of competition issues?” When you start to mix these different roles the state can have, there may be half a dozen roles at times, it gets messy.

Publicly owned companies have long been compared to privately owned companies, which are typically portrayed as the exemplary norm (Holmgren 2009). However, it was only not until the early 2000s that the governance of SOEs got its own, industry-inspired guidelines—the Organization for Economic Co-operation and Development (OECD) Guidelines on Corporate Governance of SOEs. The OECD Guidelines (from 2005 with revisions in 2015) are recommended guidelines to governments on how to ensure that SOEs are operated efficiently, transparently and in an accountable manner (OECD 2005, 2015). The first SOE guidelines were distributed around the world to the approximately 80 countries in the wider OECD network and non-OECD countries like China, India, Brazil and South Africa. One of the interviewees proudly speaks about the core elements of the OECD code, which has become an international standard for SOE governance, with its latest update in 2015 (Interview 2015-04-10):

There are some key processes in corporate governance. For example, you need to have a professional board appointment process, and a separation of regulation and ownership. And state-owned companies must not be undercapitalized; economic goals and financial performance are crucial. And if you look at those parameters, then I would say that Sweden is in a very good position, as all the Nordic countries are. But especially Sweden.

The development of the OECD Guidelines coincided with the financial and political crisis that followed the Enron crash in the early 2000s, when financial regulations were tightened and a greater emphasis was placed on independence. Politically and financially independent board members became a top priority for reasons of legitimacy. It was not owner independence per se that was emphasized, however, but rather political

independence, via processes of professionalization (Alexius and Cisneros Örnberg 2015). In comparison, powerful private owners of large family-owned corporations like H&M and IKEA did not receive the same level of criticism in the public debate (Interview 2015-04-10). Transparent, low-risk decisions about SOEs also entered the debate following a couple of SOE scandals. In Sweden, a costly SEK 15-billion loss following the acquisition of Dutch firm Nuon by Swedish SOE and energy firm Vattenfall, in 2009, became a deterrent horror story often referred to in the Government Offices, particularly among politicians.<sup>4</sup> The impact of this scandal is summarized (Interview 2015-04-10):

Politicians want to minimize risk and companies want to optimize risk. For a company, risk is okay as long as you get paid for it. But politicians prefer low risk. And there is some conflict here. It's therefore extremely important for a politician that an activity is transparent and can be monitored. So you can follow what's been decided, who has decided.

## 8.4 Swedish State-Owned Enterprises and the Formal Nomination Process

The corporate governance of Swedish SOEs is based on the same model and carried out by the same actors as in privately owned companies, that is, the annual general meeting (AGM) and board of directors. Like privately owned enterprises, SOEs are governed by the Swedish Companies Act and the Swedish Corporate Governance Code. Moreover, Swedish SOEs are obliged to follow the state's ownership policy and guidelines, which deal with a number of fundamental governance issues, such as external reporting and the composition and responsibilities of boards of

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<sup>4</sup>However, as pointed out by our informants when they had a chance to read a late draft of this chapter, Vattenfall has since posted impairments amounting to SEK 127.9 billion (see Q4 presentation 2015 for Vattenfall, pp. 37–39). These impairments are as follows: Germany SEK 46.5 billion, Netherlands SEK 52.9 billion, Nordic SEK 25.6 billion and other impairments and reversals totaling to net SEK 2.9 billion. The impairments refer to thermal assets, nuclear assets and other assets. The acquisition of Nuon at the height of the financial bubble is hence politically sensitive, but not the whole story.



directors, including the remuneration of executive management (Government Offices of Sweden 2017).

The Swedish Government's guidelines for external reporting in SOEs focus on the need to prepare sustainability reporting in accordance with the Global Reporting Initiative (GRI) or other international framework. The UN's Agenda 2030 Global Sustainable Development Goals have moreover recently been added and are to guide the work of the SOEs.

Government guidelines regarding the composition and responsibilities of boards place an emphasis on relevant expertise, integrity and ethical values. In terms of composition, the guidelines clarify the requirement for gender balance on boards of directors. The target for Swedish SOEs is a minimum of 40 percent representation for both women and men on boards<sup>5</sup> (Government Offices of Sweden 2017).

The Ministry of Enterprise and Innovation has the administrative responsibility for the majority of the SOEs in Sweden. Other ministries with administrative responsibility are the Ministry of Finance, the Ministry of Culture, the Ministry of Health and Social Affairs and the Ministry for Foreign Affairs (Government Offices of Sweden 2017). In 2010, the Ministry of Enterprise and Innovation set up an internal unit,<sup>6</sup> the "investment management organization", specialized in corporate governance and management created "to achieve active and professional management" (Government Offices of Sweden 2017: 14). The investment organization is responsible for the board appointment and comprises investment directors and civil servants from the Government Offices, all of whom serve on a number of company boards and lead the ongoing work of the investment organization related to the holdings, organized as investment teams, as well as experts in company analysis, sustainable business, commercial law and board recruitment (Government Offices of Sweden 2017: 14). The investment directors serve on company boards with the same mandate as other directors. The formal dialogue

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<sup>5</sup>See ownership policy for exact numbers which, depending upon the size of the board, can be 33–50 percent.

<sup>6</sup>However, the history of the ownership unit goes back way further. Two ownership entities of the ministries of finance and industry were merged in 2003 and since then one could say that there has only been one ownership entity.

between the owner and the company takes place through owner dialogues, that is, between political leaders and the board chair.

The government's guidelines stress that the recruitment process for boards of directors should focus on identifying relevant expertise: "The boards of state-owned enterprises should possess a high level of expertise that is well matched to the operations, situation and future challenges of their particular companies" (Government Offices of Sweden 2017: 14). To ensure effective provision of expertise to the boards of directors, the guidelines present uniform and transparent principles. While these principles include professional qualifications, they also make reference to other values, such as diversity in terms of gender, background, skills and experience. The government guidelines also define four phases of the formal nomination process: owner's assessment, board assessment, competence analysis and preparations and decisions by the Government Offices. Nevertheless, in interviews, the focus has mainly been on the lack of differences between the appointment process for SOEs and for private companies, but at the same time, our informants speak of the specific circumstances when it comes to the process for SOEs (Interview 2018-05-04):

Most of our board members have also board assignments in the private sector, and there is a striking agreement that there is no difference. Possibly, there are higher expectancies within SOEs. That could partly be demands expressed by the owner, but the expectations of state-owned companies are also higher. I believe that, if you are a member of the board of a state-owned company, you are scrutinized in a different way than you are otherwise. And especially the chairman is even more sensitive [...]. So the difference might be higher expectations, but there are no higher expectations for returns, but there are more expectations that you are an example that you, yes, that you live and work according to the state's value base.

## 8.5 Aligning Commercial and Political Logics

Following the historical trajectory briefly outlined in the introduction, in recent decades, the best practice of corporate governance of SOEs has officially called for a separation of politics and politicians from the

appointment and recruitment processes. In practice, this has meant, that a commercial logic has come to either dominate, or clearly influence, many central practices and processes of the governance and management of SOEs, such as the increased emphasis on management by objectives and evaluation of results (Alexius and Cisneros Örnberg 2015). With reference to a supposedly politically neutral, scientifically informed global governance model based on the OECD standard, the national ownership policies have remained largely intact over time, even with changes in government, from a center/right wing to a social democratic/green government. As one of its proponents, one of the interviewees takes great care to underline a historical shift where political discretion has become a thing of the past, before the OECD reform of the 2000s, following which it is the civil servants who “own” the nomination process (Interview 2015-04-10):

We have [first name] and [first name] who are our headhunters, they have a background as headhunters. They own the nomination process. And that process is managed as with any [private] owner. You make an inventory: what skills are there on the board? What is needed? Is there a new recruitment need? Is there someone who is not delivering? Yes, all that. And that process actually runs throughout the year, it lasts all year. But when they reach a certain level, “Yes, so this is the proposal,” then it’s presented to political management, and they usually say “okay, it seems well-thought-out.” Then it is deliberated on in the Government Offices, by a coordinating function of the Government that prepares all of the appointments. [...] Currently, it’s not often that they [politicians] send it [the proposal] back with their own names or enter names from top to bottom. In earlier times, however, there used to be a lot of political orders.

One of two civil servants currently responsible for the board nomination process at the Ministry of Enterprise and Innovation—has many years of experience as a senior headhunter in the private sector. In our four-hour long interview, he was very open and generously described his daily work. He claimed that much of his current work at the Ministry is indeed very similar to the headhunting work he previously conducted for private companies. The institutional environment of any firm (private or public) always makes board nomination a potentially “sensitive process that can

never be 100 per cent neutral, as there is always someone somewhere who has a say” (Interview 2016-03-22). This could be journalists, or it could be organized shareholders, interest groups, customers or employees. But when there are politicians involved, issues concerning responsibility and accountability to the general public, taxpaying citizens, tend to get more airtime than with large private owners (e.g. Vernon 1984; Alexius 2014). Whereas one of the interviewees stressed the ideal of independence and distance between civil servants and politicians, another civil servant notes the strong norms of conditioned trust between politicians and civil servants in the Government Offices (Niemann 2013) (Interview 2018-05-04):

It is important that we as a civil servant organization are so professional that politicians have confidence in what we do [...] it’s actually a collaboration and trust between us different professions.

What is described is a relationship based on mutual adaptation as a way of coordinating through informal communication (Mintzberg 1992), an adaptive process through which decision-makers can coordinate informally and where adjustment takes place incrementally, in small steps (Lindblom 1965).

In the case of board nominations and recruitment, the minister is only formally responsible for the decisions that are in practice fully delegated to the ministry and a handful of civil servants. The state secretary plays a pivotal role in negotiating political and professional logics in this domain as she has the mandate to discuss names on behalf of the minister. The civil servants responsible for the daily nomination work meet with the state secretary on an ongoing basis, from October until March, to present and discuss names and ideas regarding board compositions. When SOE AGMs are held in late spring, all of the names should already be informally decided. The formal decisions, however, are always made by the minister. As one of the headhunters explains when interviewed in mid-March (Interview 2016-03-22):

We are moving into the political decision-making process now [...] Though, at this point, the job is done. But formally, it’s when he [the

minister, Damberg] signs these nomination decisions that it's decided, and we're working on that right now. So, in practice, most of the boards are already composed, the names are ready, the changes are completed [...] We expect her [state secretary Lindström] to say yes, because it indirectly means that he'll [the Minister] also say yes. And if there's something the matter, they discuss it or we're ready to discuss it with him. Sometimes it happens, but I don't think it's going to happen. It could, it's not complete until it's formally signed, but ...

In practice, there is only a small circle of carefully selected ministry employees who discuss the names of potential candidates. These are sensitive matters and there may at times be a clash of commercial and political views when evaluating the performance of a board chair. The headhunter recalls times when a “trust gap” opened up between the political leadership and an SOE chair. If the chairperson has presented good economic results or, in other words, has fulfilled the commercial mission, the civil servants may be reluctant to replace that person, with reference to the official OECD-inspired agenda which is dominated by a commercial focus on economic value creation. But if the “trust gap” persists, the politician usually gets the last word (Interview 2016-03-22):

But if the minister is feeling, “No, but I don't trust what this person says,” then it might not be a good combination anyway. [...] You might be satisfied with the economic development and results of a firm, but something may be politically sensitive and this can lead to a board member, a chair or a CEO being branded and condemned.

The headhunter goes on to describe, quite openly, how both secretaries of state and politicians may become engaged in the appointment process, not only in deciding on suggestions from the headhunting experts. In fact, they also take an active part in suggesting possible nominees (Interview 2016-03-22):

We do get concrete suggestions from state secretaries and politicians [who may say]: “This is a person we have great confidence in and that we want on a board, because it's someone we trust.” It could be that this person should have a spot somewhere. But ideally it should also be a relevant spot.

We [civil servants] agree, but it would also be good if the person has relevant [commercial] experience and skills. Typically, these are people who have gained the trust of our principals and, because our principals are politicians, many of the people proposed are politicians too ... And we have a state secretary who has been a director-general [for a public agency]. She thinks that: “Oh, there must be so many qualified director-generals we could use.” [...] We also have a few former party leaders on our boards. We wouldn’t want them on the same board, that would be utterly useless. But one here, one there, is not a bad “ingredient”.

The unit manager emphasizes the importance of following the competence profile and the needs assessment when recruiting new board members:

It is an important principle that we will keep at all times [...] to return to the competence profile based on the needs assessment and make a match. This is how we work at all times to find the substantive arguments for or against a nomination. [...] It is definitely not the case that you are disqualified because you are a former politician, because, I mean, they are very competent in their area. But it needs to fit with the specific needs assessment for this company and this board.

It is also interesting to compare the different views on political involvement in the appointment process, between the view of the headhunter and the more formal, distanced or ideal-typical view expressed by the civil servant who has been involved in setting and implementing the OECD guidelines as the official ideal (Interview 2015-04-10):

I would say that in 99 cases of 100, they [the politicians] probably have no comments. Not the way it works today anyway, after these past 12–13 years we have organized, began to build up, this process, making it clearer, transparent. Ministers, the Government understand that this is how it works. The more transparent and clear this process becomes, the easier it is for [the headhunter] to prepare the nominations. And it becomes more difficult to have political input in the process.

As a headhunter, demonstrates the willingness, judgment and ability to negotiate the two logics (political and commercial) in his daily work.

When analyzing his narrative, we find that his interview expresses an ideal of what Velten et al. (2017) conceptualize as “obligatory interaction” between politicians/state secretaries and civil servants. He speaks of a shared responsibility for the relationship and the importance of having a common point of departure in a joint mission, where both parties contribute according to their respective roles and mandates. As also pointed out by Niemann (2013) and Auran (2015), this type of trust-based co-leadership allows both parties to succeed in their respective roles and within their area of responsibility. With the mission as the common point of departure, it is a matter of giving both parties the opportunity to try to understand each other in order to come together and create realistic expectations about each other (Bringselius 2018). Daring to be vulnerable to one’s counterpart and showing that one is dependent on the other is a core theme (Mayer et al. 1995). Another key prerequisite for this informal yet committed interaction, highlighted in several studies, is the opportunity for everyday dialogue and reconciliation (Niemann 2013).

One way to respect the dual mission and to handle the potentially competing logics at stake in the SOE appointment process is to describe a candidate’s experience as a politician or state secretary as a core expertise needed by the firm. The two logics may hence be aligned (Garsten and Sörbom 2014) under the common label of “expertise” where political competence is described as a prerequisite for commercial success (Interview 2016-03-22):

I can see an advantage of political competence on a board, especially if it’s a company that has a serious social mission. But I would say that to the extent that the board needs political competence, I still think there is an advantage to incorporating it into the structured process. There it’s more about the structured process of having a dialogue with the political leadership. “Yes, but this company here, half of its business is the social mission, we have to have someone who understands policy.” Then, in the structured process, you can say: “Okay, we’re looking for this competence [...]” The secretaries of state [for example] may have other experience, and may have large networks. They may have a good feel for the politics [...] And if, as officials, we’ve made a proposal for an ideal chairman with 100 years of industrial experience from all over the world, but who totally lacks political savvy, it’ll never work. [...] There are certainly exceptions, but I have to say

that it's an essential matter for the chairperson of a board to have an understanding of the political dimension. [...] The Government doesn't like surprises, they do not like unpleasant surprises.

## 8.6 Added Values and Other Ministries

The political dimension of the appointment procedure receives even more emphasis when SOEs are handled outside the central machinery of the Ministry of Enterprise and Innovation, as is usually the case for SOEs with public policy assignments. Generally, the aim has been for SOE boards and managers to focus on the financial mission and to stop politicians from using the firms as political instruments for various non-financial motives. However, for more than 20 of the firms, the particular public policy assigned by the parliament makes this financialization more complicated (Alexius and Cisneros Örnberg 2015) and adds the element of taking board members' professional qualifications into consideration. A former politician and newly appointed member of the board for Swedish alcohol retail monopoly Systembolaget comments on his own appointment (Interview 2016-12-20):

Systembolaget's board, as I have understood and been told, has for quite some time been a fairly large board in comparison to other SOEs. One of the reasons for this is that they want to have a couple of people with links to a political party and a connection to the parties at the managerial level, on both sides of the political divide, [...] given that we're a retail monopoly and also an alcohol policy tool, that you want some tentacles into party politics, how the discussions are going in alcohol policy. [...] And I think, if you're going to be a bit cynical, maybe it's a bit about personal connections—the state secretary at the Coordination Office ... when they agreed—the Social Democratic Party and the Green Party—that we should check to see if there was anyone from the Green Party who could take this on, then my name was probably one of the first to pop into her [the state secretary's] head, given that I have profiled myself on the subject.

While this board member's account supports the notion of the political logic still being very present in the appointment practice, our interview



with the investment director on Systembolaget's board (i.e. the owner representative, in this case a civil servant employed in the Ministry of Health and Social Affairs) demonstrates the co-existence of the two logics (political and professional). The investment director describes her appointment and how her ignorance of alcohol politics and policy was declared a merit, an ideal for a "neutral" representative of the owner (Interview 2015-04-02):

I was asked 3 years ago whether I wanted to work with Systembolaget. [...] They had decided that it shouldn't be someone who worked with public health issues, as it had been in the past. Rather, it should be the opposite, to make sure that as the investment director you didn't know anything about alcohol and drug policy—that the two tasks should be somewhat separated.

And again, the headhunter justifies this order with reference to differences between ordinary SOEs and SOEs with a public policy assignment such as Systembolaget, and state-owned gambling firm Svenska Spel (Interview 2016-03-22):

When there's something else that's not just commercial. That's when the interaction with the owner is in more places than just with the owner unit [at the Ministry of Enterprise and Innovation]. Svenska Spel is one such example now, where we have an ongoing public investigation about the future regulation and role of Svenska Spel. In that case, there'll be a lot of interaction between the owner and the company—not only the civil servants at the owner unit, but also the minister and state secretary at the Ministry of Enterprise and Innovation, as well as with the Ministry of Finance.

## 8.7 Gender Equality and Sustainability

In recent years, the owner policy states that the SOEs should act as exemplary role models in the field of sustainable entrepreneurship and otherwise act in ways that enable the firm to earn public trust. As stated in the Annual Report for the SOE portfolio, in the foreword by the minister responsible (SOE 2016, Annual Report, p. 3):

As the minister responsible for state ownership, I consider maintaining public trust in state-owned enterprises to be one of my most important tasks.

In December 2016, the government adopted an ownership policy and guidelines for SOEs for 2017. The level of ambition for companies' efforts in sustainable business has been raised through inclusion of Agenda 2030 and the Global Sustainable Development Goals, along with international guidelines, in the policy to guide Swedish SOEs in their work. The requirement for gender balance on boards of directors has also been clarified, as it now applies to the portfolio as well as the boards. As stated in the 2016 Annual Report for the entire SOE portfolio (page 2 and page 8):

Regardless of whether or not the companies have been given public policy assignments by [Parliament], they are an important part of building our society. [...] Sustainable business is an unquestioned cornerstone of investment management and we have high expectations for responsible and transparent conduct on the part of the companies. In that the state company portfolio is a large and important part of Swedish enterprise, the actions of the companies can serve as examples to others. The areas where we have been forerunners in governance of the state-owned enterprises include gender balance on boards of directors, imposing early requirements for sustainability reporting and clarifying our expectations for the companies' work to implement the global Agenda 2030 for sustainability and the Paris Agreement. [...]

SOEs are to act as role models in the area of sustainable business, which includes strategic and transparent efforts with focus on cooperation.

In retrospect, the development of sustainability as an urgent issue on the board agenda may be described as a gradual process. This is also typical of how new skills and needs are added as important aspects to consider in the appointment process (Interview 2016-03-22):

When former minister Norman and former state secretary Thedéen were in charge [during the center/right government from 2006–2014], they really wanted to encourage thinking about sustainable entrepreneurship, for

companies to really start working on raising the issue, if it hadn't already reached the board level. Some companies worked with it, but it was not always the board that discussed this. Now, this issue has moved very high, or to the top of the board agenda, and boards need to start working with it in order to respond and account for what they do. They've become responsible for setting strategic and sustainable objectives.

The unit manager also points out the importance of competence both among the board members but also among the civil servants themselves (Interview 2018-05-04):

In any organization, if you want to enter a new area or start working in a new way, the most effective way is to raise the competence of all [...], but it takes longer time [...] One step along the way may be that you hire an expert [...]. The risk with the expert is that everyone just points to you as an expert and says "I do not need to do this because we have you, and you are so good at this [...] The goal of sustainable entrepreneurship is that it is so well integrated that we almost stop talking about it [...] There are important steps you need to take to make it visible, but it will be more and more integrated.

Regarding gender equality, it is stated in the minister's foreword to the 2016 Annual Report (p. 3): "In the view of our feminist Government, gender balance on boards of directors is an unquestioned principle and a competitive advantage". Today, 41 of the 44 limited companies in the portfolio whose registered offices are in Sweden have gender-balanced boards of directors. On average, the gender breakdown for the boards of SOEs was 49 percent women and 51 percent men (2016 figures), considerably better than privately owned listed companies in Sweden, where women made up 32 percent and men 68 percent of the boards. Particular focus has been placed on increasing the share of women chairpersons, and 45 percent of SOE chairs were women (Annual Report 2016: 3). The headhunter describes the development of these issues (sustainability and gender equality) as a high priority in the governance model (Interview 2016-03-22):

Fifteen years ago it was like: "We, on the board, we're men who've been CEOs and who are at our prime level of experience, 60–65 years old. We

don't need to be evaluated because we're the best." But little by little there've been more calls for transparency and evaluation and new ways of thinking about the optimal group composition. According to the Swedish ... Nordic model, it's the owners who appoint the board members. This comes with responsibility. We can't just pick someone ... Now that we want gender equal boards ... we have to be persistent in our search. Professional work on the board calls for solid underlying processes. [...] We can't content ourselves with the first man we come across. He may be very capable, but if we also have demands on- and believe that it's crucial that the boards are gender-equal ... then we have to devote more time to the search ...

We have dialogues [with the state secretary and politicians] on different issues and for different reasons. The balancing act of gender equality is one of them. We [headhunters] may have fought and done a great job as far as we're concerned, and we're in a position with a balanced board—8 people on the board, 4 of each gender. And then, the boss steps in and makes a substitution for a different reason—a woman for a man, and then suddenly it's like “right, we're not balanced anymore”.

## 8.8 Discussion

Previous research on SOEs has tended to focus on transaction cost studies and principal-agent analyses (Bruton et al. 2015). This is unfortunate since institutional theory on the significance of external expectations and pressures is particularly relevant in our understanding of these companies' position in the boundary zone between the political sphere and the market (Aharoni 1981, 1986; Rainey and Chun 2005; Radon and Thaler 2005). In addition, as Thomasson (2009) and Alexius (2014) have noted, the topic has rarely been studied from an empirical vantage point of what it means in practice to govern and manage a publicly owned company.

One interesting difference to private companies is that SOEs have no nominating committee or, rather, when the state is the only owner, the nomination and recruitment of board members becomes a matter for politicians and their appointed civil servants in the Ministry of Enterprise and Innovation. Here, it seems to be the case that a small number of civil servants have a great amount of influence on appointments to- and the

composition of the board. This chapter has sought to describe the daily work of board appointments performed by civil servants in close cooperation with the minister and state secretary in the Swedish Ministry of Enterprise and Innovation. We have taken a particular interest in the thinking and daily work of the civil servants who perform this work, and analyze how they manage the two main logics at stake—the political logic and the commercial logic—in their practical work of appointing the board members of Swedish SOEs.

At the time of conducting and writing up this case study, the “post-NPM” debate is in full swing in Sweden, and we believe it is reflected in the discrepant views reflected by our informants. Officially, NPM, with its emphasis on a clear division of responsibility and a separation between politics and administration, is still proclaimed, by the senior civil servant who took an active part in introducing the OECD Guidelines on SOE governance, to be the professional way of handling things. But a closer look into the actual daily practice of the headhunters currently at work shows us that negotiating and aligning logics is described as key to their work. These processes seem in turn to be based on conditioned trust between civil servants and politicians.

We foresee that in the emerging NPG era, with its emphasis on adding even more values (such as sustainability and gender equality) as requirements to influence governance processes, the political logic will be further strengthened. As the previously dominating mode of NPM-inspired governance of SOEs is challenged, public appointment officials face increasing pressure to demonstrate that all of the social values at stake for the hybrid organizations are reflected also in the nomination of SOE board members, without compromising business efficiency, public accountability and the public income derived from SOEs. The willingness, judgment and ability to negotiate and align these potentially conflicting values will then be key (Alexius and Tamm Hallström 2014). As the case study continues, our aim is to complement the data presented here on civil servants’ views with the views of politicians and state secretaries, in order to better capture the nature of their crucial relationship and how it conditions the appointment process and the dual logics at stake.

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## Interviews in the Swedish Government Offices

Former politician and appointed board member of Swedish alcohol retail monopoly Systembolaget. Interview 2016-12-20.

Owner representative, senior civil servant employed in the Ministry of Health and Social Affairs. Interview 2015-04-02.

Senior civil servant in the Ministry of Enterprise and Innovation. Interview 2015-04-10.

Senior civil servant responsible for board appointment in the Ministry of Enterprise and Innovation. Interview 2016-03-22.

Unit Manager, Unit for State-Owned Companies, Ministry of Enterprise and Innovation. Interview 2018-05-04.





# 9

## Hybrid Organizations in the Italian Regional Context: A Case Study from the Cultural Heritage Industry

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## 9.1 Introduction

In the last decade, the context of Italian local state-owned enterprises (SOEs) has been undergoing an intense process of change (Bruton et al. 2015), altering corporate governance, organizational structures and allocation of functions in a variety of industries. Triggering factors for such changes were issues such as the economic crisis (and the related public budget restrictions), pressures from the local communities and more generally a new equilibrium to be found between political instances and stakeholders' needs.

This chapter deals with a case study located in the context of the cultural heritage industry. The organization under scrutiny is *Probec* (a Regional entity for Cultural Heritage acting in one of the Italian Southern Regions<sup>1</sup>). It was established in 2003 by the Regional Administration with the aim of promoting the system of cultural heritage and activities as a key factor in the local development. The aim of the organization is the multi-disciplinary, integrated management of cultural assets, linking local, historical, artistic, archaeological and environmental resources and integrating them with regional infrastructure and services. Probec is a key player coordinating public and private stakeholders for the touristic and cultural development of the Region. Indeed, the organization works in collaboration with local stakeholders to create a unified development model able to relate the Region's cultural offerings with professional, infrastructural and touristic facilities. Since 2016, Probec was transformed into an in-house company entirely controlled by the regional government, switching from a public-private company to a company whose sole shareholder is the Region.

In this chapter, we analyse Probec's hybridity from a twofold perspective. First, Probec is interested by hybridity with reference to forms of the governance model: this is a case of the dynamics of the organizational forms, where the governance models change over time. Such change takes place over time affecting issues related to the organizational form and, more specifically, the way in which the organization actually works.

Moreover, it is also a case of hybridity between different logics associated with different institutional spheres: the logic of the public sector and the logic of the market. Recognizing the coexistence of plural normative

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<sup>1</sup>The name of the organization under scrutiny and related information affecting background elements of the case have been modified in order to preserve confidentiality of respondents.

frames (logics), we witness the paradox of a publicly owned organization which had to work in dynamic and project-oriented settings and under “private” constraints and regulations, while adhering to a more rigid regulative framework typical of public contexts. Having the public mission of taking responsibility for cultural heritage while the actual work is carried out by contracted external service providers, they have to rely on the market logic in order to fulfil their primary responsibility of general interest. This reliance implies procuring almost all staff on a temporary basis in so being constituted almost entirely by freelance workers whilst acting under a public label.

Therefore, we analyse the case study in terms of two related research questions:

- What are the different forms of hybridity related to the evolution of governance models?
- How can the organization preserve its ongoing operational stability when sources of hybridization combine differently over time?

We adopted a case study methodology (Yin 2003). We used desk analysis and multiple semi-structured interviews to gather the necessary data. One of the authors was also a participant observer as organizational consultant in the process of transformation of Probec throughout 2016. During his fieldwork, the author spent two days a week in the organization under scrutiny on alternate weeks. Having free access to the organization premises, he could make many formal and informal contacts and become relatively familiar with the management. He recorded on a data sheet the activities of each shift, reporting discussions and conversations among project managers and directors.

## 9.2 Hybrid Organizations in Italian Cultural Heritage Industry

A much-debated issue in cultural heritage management is the dualism between centralized models with highest levels of government intervention versus the attempt to allow private local partners to be actively involved in heritage management (Skelcher, 2005). Outsourcing options

have turned into contracting in policies or in other cases (like in the case of Probec) the handing over of cultural heritage support activities to purposely built public-private institutions. The management of auxiliary services following a private regime has increasingly imported into the industry managerial tools such as programming and budgeting, together with the circumstance that resources from central government have become more and more volatile, due to long-lasting economic recession. In the case of hybrid organizations purposely built to manage support activities, programming and budgeting is complemented with more flexible access to the job market, provided that new employees may be hired using private employment contracts, very often on a temporary basis.

It has been noted that, as long as these public-private organizations are subject to the same legal framework as private firms, what matters is not the ownership of the service provider per se but the shift towards flexible working contracts and use of voluntary work, which may be less available to local or regional administrations.

In the case of the organization here under scrutiny, the delegation of activities to the hybrid organization was originally implemented first through the choice of the private partner by means of a tender competition, with a contract regulating the award of the services that took into account the fact that, for instance, ticket prices remained politically determined, not reflecting production costs.

In the Italian cultural heritage industry, at a general level, the offer of enhancement services is provided by different types of hybrid organizations, established at local level in order to cover peculiar areas. It is the case, for instance, of Zetema, founded by the Municipality of Rome, and Probec, established by the Region, alongside smaller companies whose core business is the provision of the services in question (e.g. Civita Servizi and CoopCulture are mostly active in the sites of Southern Italy). The demand for additional services for the enhancement of museum assets and cultural sites generally comes almost exclusively by public subjects, such as the *Soprintendenze*, or rather the Foundations, which manage cultural collections or sites.<sup>2</sup>

The offer of these services in Italy is also characterized by the presence of numerous cross-ownerships between private companies and mixed

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<sup>2</sup> Please refer to Appendix for an explanation of actors and roles involved in the cultural heritage industry in Italy.

public-private enterprises (e.g. see Probec) and for the modality of participation in tenders which usually takes place in an associated form through temporary groupings of companies. Furthermore, it should be noted that the presence of mixed capital companies and subsidiaries of territorial entities in the market in question may imply that these services are entrusted in the absence of a tender. In fact, in some cases, the Regions sign with companies controlled by a public entity (also coinciding with the same territorial body) qualified institutional agreements on the basis of which it is conferred the task of providing the services in question. This situation has occurred, for example, for the assignment of the service promotion of an exhibition held at a very important cultural site; this service has been assigned to Probec without tender.

In the region where Probec operates, competition for access to the market for additional services was safeguarded by choosing concession holders of such services only through tenders conducted according to transparent and non-discriminatory selection criteria. In other Italian regions, the entrepreneurial management of enhancement services typically leads to the creation of companies with a corporate form and controlled by the same public bodies, called to operate with autonomy and flexibility in market sectors subject to strong regulation or public control (such as the cultural heritage sector). Direct public management could be justified only if one intends to make a specific one an available cultural site that is not economically significant (e.g. this may happen in cases where there is low attendance).

### 9.2.1 Probec: Activities and Main Projects

The company's areas of interest range from the design and implementation of cultural promotion initiatives to the organization of events and museum hospitality. Its activities can be divided into four macro-areas:

*Event planning and organization* Probec offers, designs and organizes exhibitions, events, festivals, shows, conferences, concerts and workshops for the Region, the key element of which is always the promotion of the cultural site hosting the event. The company aims to promote not only well-known cultural assets, but also those of smaller sites, which do not form part of traditional tourist/cultural itineraries.

**Museum services** Probec is involved in the design and implementation of initiatives for the promotion of cultural assets, hospitality, information and bookings, ticketing, in-house support, organization of exhibitions and events, teaching, museum cafes, libraries and bookshops. For example, Probec manages the Museo Madre through a global service contract: from the ordinary services of ticketing, reception and room assistance, to ordinary and extraordinary maintenance, up to the teaching activities and organization of exhibitions and various events.

**Tourist/cultural promotion and communication** Probec handles the graphic design and production of media plans, direct marketing, web/social media marketing, press office responsibilities, the organization of press tours and family trips, the organization of special events for fairs and tourism grants for the promotion of regional cultural assets.

One example of activities Probec does is the management and promotion of a tourist card called *Museumpass*, which brings together and systematizes entry to museums and local public transport. It is an integrated ticket that allows visitors to easily access the main museums and archaeological areas of the Region. In particular, it is possible to visit the sites of the *Museumpass* circuit and get discounts for the other places and services of the circuit in convention. Also for some types of cards, *Museumpass* also includes regional public transport. The Director General of Probec declared:

We are the operative arm of the Region (handling the programming) in the enhancement of cultural heritage in the Region and we are the implementing subject of an integrated system—*Museumpass*—to develop a network between the different territories and different cultural heritage actors of the Region.

In short, Probec manages some sites of state competence, going beyond the mere organization of additional services, and overseeing the entire management of the site (maintenance, organization of exhibitions, etc.), always under the supervision of the *Soprintendenze*, who are still tasked with the protection mission. Probec's activities are characterized by being highly artistic and creative (e.g. addressing artistic design, then outsourced to specialized suppliers) and need to maintain strictly

organizational and communication (in most cases, through external assignments) elements.

Under this point of view, the need for compliance with Italian legislative provisions to select human resources (HRs) on the basis of a public tender clashes with the need to select specific professional skills for services that are creative and unique.

Service providers are hired on the market but their procurement relies on specific elements that only a small number of suppliers can actually offer, given previous experience and work developed for Probec. Almost the entire spectrum of artistic and technical services is procured from the outside (the organization has very limited internal competences on this side). Of course, this element strongly differentiates this case from the typical procurement process of the public administration.

In order to illustrate the type and specific nature of the events/projects managed by Probec, outlined later are some of the most recent initiatives in which the company has covered the organization, coordination and/or promotion. In particular: in brief, Probec acting as a “meta-organizer” has the crucial role of organizing, governing and tuning the network of public and private stakeholders of the local, historical, artistic and archaeological industries, integrating them with the region’s infrastructure and services. These ties are embedded in what Sydow and Staber (2002) have deemed “latent networks”, in which interorganizational ties between organizations are dormant for some of the time but are then routinely activated in order to accomplish a specific project.

### 9.2.2 Probec: Evolution of the Governance Models

Probec was established in 2003. It was a company with capital fully owned by the Region; its corporate purpose was to “*enhance the system of cultural assets and activities as a factor in the development of the Region*”. Basically, the Region wanted to create a subject that could manage cultural goods, activities and services, also beyond the simple management of ancillary or additional services.

In 2004, initiatives were taken to transform Probec into a joint-stock company with mixed public-private capital, the majority of which should have remained public. Thus, Probec transformed itself into a mixed

public-private capital company: 51% Region and 49% Arte Scarl, an ad hoc company selected through public procurement competition, created by existing players to provide services in the cultural heritage supply chain, including reception, promotion and restoration services. The private partner was identified in compliance with the procedures laid down by the Italian Code of Public Contracts, through a “dual-purpose tender”: indeed, the tender was aimed at both the acquisition of the share capital (of the private entity) and the assignment of operational tasks related to the management of the service and the implementation of specific projects. The Region can entrust Probec with the implementation of projects and events on the specific request of the Region itself. These ones are regulated by signing specific contracts supplementary to the “Framework Service Contract”. It must be said that according to Italian law, a public body can entrust a mixed entity (such as Probec) with the management of cultural assets transferred to it in use, provided that, as in the case of Probec, the private partner was chosen by tender.

As mentioned earlier, Regional Art, which groups and represents the companies of a “Temporary Grouping of Companies”, was the winner of the dual-purpose tender. In this phase, therefore, the governance of Probec was based on cooperation between public and private: the public partner was mainly responsible for the strategic functions, quality control and monitoring of the benefits on the territory, while the private management was delegated with the management of services and company governance. In this peculiar hybrid form—we could define it as “quasi-hierarchical”—a private-public partnership was established following the dual-purpose tender, in which the contracts for the execution of the projects go automatically to the shareholders, with Probec’s plan, coordination and control. Other than simply being a case of collaboration among private sector and public administration, Probec acted as a hybrid organization under the coexistence of both private and public logics.

Probec—explained the CEO in 2006—proposed itself on the national scene, as a model of excellence capable not just of improving the quality and quantity of services offered to the public, but also of favouring synergies between the stakeholders in an area, region, superintendence, local



authority, university, tourist and service entrepreneurs, necessary to maximise the social and economic benefits of the development of cultural heritage [...] We have a transversal role as observatory, marketing and communication plans, event programmes and network services to improve the accessibility and usability of cultural rounds ... and we develop global service interventions.

The latest evolution of the Probec governance model dates back to last year. Indeed, since June 2016, Probec has become a joint-stock company with shares wholly owned by the Region and subjected, as an in-house company, to the control of the regional authority. The company is currently governed by a board of directors composed of three members, including the chairman.

In this new “in-house” form—which we could define as “quasi-market”—Probec bids on projects financed by the public (the Region) in which the private partners (previously among owners of the 49% private stake) participate as well (which, as shown by the tenders carried out during the first part of 2017, they only win occasionally). This situation is quite different from the previous quasi-hierarchy form: while previously Probec managed, and reported contracts entrusted directly to shareholders and suppliers chosen by shareholders, now it reports contracts entrusted through tender procedures carried out in accordance with the Italian law on public procurement, with a greater bureaucratic burden (of transparency) to be carried out before entrustment.

### 9.2.3 The Structure

In addition to certain organizational units, the simple structure is articulated into staff units to the president and/or the general manager and two units in line positions: the “Administrative Area” and the “Project Area”. Currently, the General Management directly depends on the company’s administrative body and is granted the following main powers by the bylaws: (1) overseeing the implementation of the resolutions and implementing the decisions of the shareholders’ meeting and the administrative body; (2) collaborating with the board of statutory auditors; (3) performing the functions of management, administration and control of

the organizational structures of the company; (4) supervising the management of human, instrumental and financial resources. The project is the primary mechanism for coordinating and integrating all the main business functions of this organization (Hobday 2000). Therefore, the projects area represents the key unit of Probec's structure. The project manager area coordinates, monitors and checks activities related to a project or contract, based on the directions received, in relation to each service manager (supplier/mandated party). The Press and Communication Office, staff at the top of the structure, is in charge of (1) taking care of the external communications and image of the company and (2) supporting top management in relationships (stakeholders, including clients, partners, stakeholders/suppliers, institutions, competitors, interlocutors, chambers of commerce and opinion leaders—such as specialized and sector press, representatives from local communities, companies, etc.). Finally, the administrative area deals with the administrative tasks, accounting and financial issues.

#### **9.2.4 Human Resource and the Hybridization of the Competence**

In the specific case of Probec, the functioning of the organization is enhanced through knowledge hybridization between the in-house competences available (mainly at coordination level) and the market-based resources mobilized through the delivery of the projects. In the previous configuration of Probec, the staff was “detached” from the shareholders (the company only had two direct employees): essentially, the members (the private shareholders) provided staff to Probec and Probec paid the shareholders the corresponding cost. Currently, the staff is mainly on fixed-term contracts or with consultancy contracts and has increased in numerical terms. Specifically, the HRs currently employed by Probec for the provision of the different services include:

- Internal resources, experts in an already “mature” field of services and consolidated by several years of activity in the sector, for priority tasks of an organizational-managerial nature. Internal resources have two

different contracts: three have a permanent contract with the company; another nine are staff hired on a fixed-term basis;

- Expert external consultants. These are consultancy activities of a different nature: tax consultancy, consultancy for personnel administration, institutional communication, Madre museum communication, safety at work, website management and so on.

Therefore, the company's ongoing core activities—the establishment and stable organization of resources, facilities and networks, as well as the provision of technical expertise for the enhancement of the regional cultural heritage—are carried out either by temporary workers or by external consultants.

Probec, as we pointed out, plays, in many cases, both a specialized role in specific cultural and touristic projects/events and a role of integration between different actors in the cultural supply chain. In this sense, it can be interpreted as a project-based organization in which from time to time distinct stakeholder skills are “put to the system”. In our case, independent and interdependent entities cooperate for a limited period of time to achieve specific objectives (Sydow et al. 2004). In these organizations, the focus on specialization is secondary to an emphasis on strategy and competences that may best satisfy the needs of a project and which go beyond the normal boundaries of individual companies and the sectors of industry they belong to. The hybridization of skills related to the different projects in which Probec is involved is substantiated by the extreme “permeability” of the company's organizational boundaries. A permeability linked both to the hiring of staff with fixed-term contracts (and/or the consultant's engagement) and through the different forms of collaboration with the skills of service providers who change time to time depending on the specific project/event in which the company is involved.

### **9.2.5 The Hybridization of the Logics and Its Effect on the Organizational Form**

The features of the current ownership structure generate a series of dilemmas between the creativity and innovation processes inherent in the very nature of Probec's design activities and processes that are

typically connected to public governance. These dilemmas surface and manifest themselves from different angles in the dynamics of the company's organizational structure.

A first dilemma regards the need for compliance with Italian legislative provisions on transparency and prevention against corruption in public companies, thereby meeting the requirements of both the Italian National Anti-Corruption Authority (ANAC) guidelines and the new (refer to 2016) public procurement and concession contracts code. In fact, the guidelines and the code require that the head of the Prevention of Corruption and Transparency must be a manager or officer of a public company (or one under public control).

As mentioned, all of Probec's internal staff are employed on a fixed-term basis, and their skills are more of an artistic and cultural nature than of an administrative one. Therefore, responsibility for compliance activities has been entrusted to a young philosophy graduate who was originally hired by the company to manage a cultural promotion project at a regional museum. The following quote is how one of Probec's management consultants sees this situation.

Our organization is under pressure to comply with an increasing number of external regulations, such as anticorruption guidelines ... On one hand, due to the need to provide regular updates on compliant work practices, a more strategic approach to compliance management should be desirable. On the other hand, it is paradoxical that in order to respond to bureaucratic control needs, we must sacrifice a brilliant humanities graduate who we hired temporarily to do something entirely different [...] As an organisation, we thrive on artistic, cultural and tourist promotion projects ... Indeed, we thrive on projects and not on standardised processes; this is by no means prevalent among Italian public companies, which are decidedly more accustomed to the management and regulation of unchangeable processes[...] We must necessarily conform to the typical logic of public administrations, to this end foregoing a valuable resource to whom the performance of transparency and accountability tasks feels entirely foreign, both for his specific skills and for the dichotomy between a compliance format designed for standardised processes vs. the design nature of our activities.

More recently, the head of the compliance was a lawyer who was hired externally as a consultant. This regards precisely the critical points just described. Yet even this represents an anomaly. On the one hand, a public company like Probec has very strict constraints in relation to hiring staff (a person with legal/administrative skills); on the other hand, allocating this role to an external consultant represents a departure from ANAC's guidelines on in-house companies.

The second dilemma between design and creative processes and compliance processes arises in the tendering process for services to be provided by Probec. As mentioned, the law dictates that companies with an in-house configuration must tender all services to be provided. According to a Probec's board member:

The New Italian Public Procurement Code regulates accurately the planning, programming and designing the procedures for the award of service contracts and key stages for the tender station, identifying common basic principles for all types of contract to be followed, such as transparency, cost efficiency, effectiveness, correctness, timing, free competition, non-discrimination, and so on ...

The services are nonetheless very different: some involve activities such as catering, restaurant services, wardrobe, ticket office and reception, whereas others lie closer to the promotion of a particular work or event, from the handling of works of art to an exhibition set-up, from the design and arrangement of exhibition or concert stage lights to communication tasks (inside the location and/or related to the event's promotion). It is evident that many cases of this second category of services represent nearly structural elements of the tangible and intangible cultural heritage that Probec must promote. As noted by a project's manager:

It is not all that uncommon for a certain artist to demand a particular supplier for lighting, or to set up the exhibition [...] We really struggle (especially with foreign exhibitors) to make others understand that while we are in fact a public company, we cannot directly entrust the services to anyone we want, but must go through a competitive tender.

In a certain sense, therefore, the principle of impersonality of selection to which the company is subject clashes with the need to select and acquire specific professional skills for services that are, in many cases, creative and innovative.

Finally, the last dilemma between needs connected to the in-house nature of the organization and the innovative approach of the tasks refers precisely to the duration and types of contracts of Probec's staff. Another Probec consultant notes:

Internal staff have six-month contracts ... (We cannot hire permanently). Not unlike the rather short-term view favoured by some political appointees ... Conversely, projects under Probec's management responsibility are quite often extremely protracted affairs...". An exhibitions project manager pointed out: "Currently I'm organizing an exhibition in a Museum of Modern Art that will last about one year ... I manage the exhibition budget and I am responsible for the supervision and direction of the fabrication and installation contractors. In particular, I oversee the production of this temporary exhibition fabrication, installation and graphics in collaboration with the curator and designers [...] But, I am just a temporary worker ... and I am worried by the fact that in six months my contract runs out and I don't know yet whether they're going to renew it [...] This is unreasonable. From the organizational point of view, the higher the turnover of temporary managers, the greater the learning costs are [...] Explaining and teaching issues and rules to the new project manager each time is a time-consuming activity. Furthermore, fixed-term contracts and high turnover among project managers could reduce the quality of the projects.

In many cases, therefore, there is a blatant mismatch between project responsibility and project duration, which can hardly be bridged given the legal constraints imposed on an in-house company.

In essence, the examples analysed evidence a misalignment between the public control nature (and process) of the company and the innovation process and creative and planning nature of the activities performed. This mismatch surfaces as stress points in the organizational structure as a whole.

While in the previous phase of Probec being a "quasi-market", the contrast between misaligned processes was managed within the field of governance (the mixed public-private board), and that configuration

allowed greater flexibility in terms of structural choices (staff was “borrowed” from private partners and tenders to allocate services were not mandatory), the new configuration which can be labelled as a “quasi-hierarchy” appears much more intricate and favourable to the development of these different forms of “organizational stress”.

### 9.3 Concluding Remarks

Probec can be understood as the organizational model chosen by the Region for implementing its touristic and cultural policies. It can be regarded as a hybrid entity, partially commercial and partially regional agency. Our analysis points out the duplicity of issues at stake when discussing hybrid organizations in the cultural heritage context in Italy.

The oscillation of the pendulum between private company owned at 51% by Region and the new configuration of total in-house control (full contracting in) is, as shown, related to the ownership and, thus, to the governance of the company. However, in both cases the company does not control internally the capabilities and competences needed to manage the projects. So the company acts on the market in order to recruit on a temporary basis the knowledge needed. Probec gives assignments to private suppliers, which on their turn exploit the situation and provide services that Probec is contracted to provide.

This is a peculiar management situation for the organization. In almost everything they do, they hire external providers on contracts. This means that they hardly have any employees and that they exercise governance through contracts to the actual service providers, meaning that they are some sort of middle hand/mediator between cultural values of national interest and commercial service providers. They are responsible for the outcome of the services, but the management of services production is outsourced to other private providers.

Before 2016, Probec awarded services preferentially to the private partners owning the 49% of the capital. Afterwards, the Region has returned to an in-house option of internal coordination via the SOE. Apparently, the public-private partnership was a process of progressive layering where new market modes of governance in terms of contracting

were added within the existing institution, the SOE (Probec). Hierarchical governance as a political option, as well as legislative evolutions, has supported the back and forth movement of the pendulum between public-private partnership and a full in-house solution. Our case shows that the in-house institutional solution in place may lead to the establishment of the quasi-market as a mode of governance. Thus, the layering of an in-house solution as a governance mode does not necessarily become a threat to the previous existing institutional set-up. During the public-private partnership experience, private actors did not limit their role to technical competence providers but leveraged project management skills to initiate a series of related initiatives and to integrate very diverse competences.

Clear definition of individual players' responsibility, timing, resource allocation criteria, shared commitment and bottom-up approaches had been important elements in fostering success of the cooperation in the public-private partnership period. The public partner has kept and reinforced some unique competences necessary to select the most competent suppliers and identify the most skilled counterparts, to strengthen the visibility and reputation of the institution (Christensen 2015). Public stakeholders did not merely outsource some activities to private counterparts but also engaged in a constructive relationship around heritage's and citizens' needs.

As a general observation, we witness a lack of fit between governance and structure. Innovative and with a project-oriented structure ruled out by a well-balanced public-private governance, the company managed to survive to such tensions. When the governance became entirely public (unfit to the organizational structure in terms of compliance and projectification of its activities) the organization is characterized by a typical public logic and the structure became non-adequate. The structure should have instead (to be fit with governance) been wider, more bureaucratic and controlled through a more public administrative regime. The contrasting logics (compliance vs. innovation) result in a tension within the organizational structure, while instead previously they had found an equilibrium in the (mixed) governance.



Heritage management remains then an area in which hybrid forms might be particularly fruitful, given the interrelationship between preservation-related and enhancement-related activities and the mutual interdependence of stakeholders.

## Appendix: The State of Affairs of Regulation of Cultural Services—Italian Context

In Italy, cultural heritage is mainly managed in a unitary manner at the national level, although recently several reforms have introduced the involvement of different levels of government and the intervention of a variety of entities and stakeholders. As a matter of fact, this industry in Italy has been considered as a public sector domain of intervention (Bertacchini et al. 2016). Direct intervention by national or local governments has been the dominant organizational model of cultural heritage for long. For decades, cultural institutions like museums have not been managed as autonomous having no own budget. Revenues and sponsorships were mainly channelled at the central government. In the 1990s severe cuts to public expenditure were implemented in the country and outsourcing auxiliary museum services (bookshops, catering, etc.) was the first law in Italy allowing in the cultural field. From reforms taking place in the year 2000 (legislative decree 42/2004) onwards, the state has exclusive responsibility for heritage protection while preservation-related activities may be jointly supported and performed by the state and other public and private partners. Heritage management in Italy is currently the responsibility of different institutions. State involvement takes place through the Minister of Culture and Tourism (MiBACT), which operates through locally detached organizational units—called *Soprintendenze*—that are meant to coordinate cultural policies and cooperate with the local government in tourism and urban development issues. The subsequent code of cultural heritage and landscape has established a distinction between the activities of protection and those of enhancement. In particular, in the management of a cultural site, there can be activities that are part of the protection domain, such as proper

conservation actions and restoration, and activities that belong to the enhancement domain, such as the promotion of the site, ticketing and cleaning. Enhancement activities are increasingly wider, including revenue-generating services on the sites, publishing and sales service regarding reproductions of cultural heritage and the creation of catalogues and other informative material, services concerning book and archival assets, cafeteria, catering, wardrobe and sale of other related merchandizing. What usually concerns hybrid organizations created as permanent or project-based public-private partnerships are enhancement activities, such as the organization and management of exhibitions, and more generally service provision related to cultural assets in order to have cultural heritage reaching the highest possible number of visitors.

On the local side, the Regions are in charge of the legislative power in the area of the enhancement of cultural and environmental heritage and promotion and organization of cultural activities. The Regions cooperate with the Ministry in the exercise of the protection functions and share the administrative functions for the protection of landscape assets.

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# 10

## Problematic Outcomes of Organization Hybridity: The Case of Samhall

Mats Jutterström

### 10.1 Introduction

Organizations can often be relatively easily divided into generic categories, such as company, state, or civic organization. But sometimes they cannot. Many individual organizations contain distinctive characteristics from different organizational parts of society, thereby incorporating different institutional logics (Brunsson 1994; Goodrick and Reay 2011; Pache and Santos 2013). They are, as we call them in this book, ‘hybrid organizations’.

Hybridity can work as a solution to profoundly conflicting demands and missions. The outcome of hybridity may be greater legitimacy or higher efficiency, or both, than would be possible in generic ideal types of organizations. But is hybridity necessarily a success story—a combination of basic principles from different institutional logics that improves

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the overall situation of the individual organization? The purpose of this chapter is to demonstrate the problematic sides of hybridity—more specifically, when the logics of different organizational forms are difficult to combine in an organization, producing dilemmas and tensions between important stakeholders. To demonstrate this, I use the case of Samhall—a large state-owned company in Sweden. Samhall was founded for the sake of one basic social mission: to provide individuals with disabilities with meaningful and developmental employment in a good working environment. The institutional affiliation of the Samhall organization was more apparently that of the public sector organization. Over time, however, market and business logic has had a profoundly increased influence on the organization, leading to significant dilemmas and conflicts in Samhall's day-to-day operations. These conflicts have also spread to the public debate in Swedish mass media.

In its evaluation of Samhall in 2016, the Swedish Agency for Public Management (*Statskontoret*) states: 'Since 2001, an additional demand has been placed on Samhall to seek, on an ongoing basis, new business opportunities to secure growth in its turnover and added value. In other words, Samhall should act as both a commercial business firm *and* [emphasis added] accomplish an important mission in society' (*Statskontoret* 2017:7, p. 17). To what extent is this possible, and what are the outcomes of this generic 'hybrid' ambition?

The remainder of the chapter is structured as follows: I begin with a brief introduction of some basic values of the public organization sector as well as of the business sector, highlighting how the institutional logics of the two sectors differ significantly. I then turn to the case of Samhall to describe the organization and its development, to illustrate its increasing hybridity, and to present three overarching problematic effects of the hybridity. The chapter ends with a conclusion of the results, followed by a discussion of how the problematic effects of colliding institutional logics may be mitigated in the Samhall case, for the sake of the individuals the organization was set up to help. The empirical data<sup>1</sup> underlying the study includes transcriptions from semi-structured in-depth interviews with various Samhall stakeholders: Samhall employees with disabilities,

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<sup>1</sup> This is a report from my ongoing study of Samhall.

local Samhall managers, managers at Samhall's head office, politicians, civil servants at the Public Employment Service (*Arbetsförmedlingen*),<sup>2</sup> and interest organizations for people with various disabilities. The data also includes written material as well as observations at Samhall annual meetings and public events. In the breaks during these events, I have also been able to pose questions to various stakeholders, such as politicians from Swedish Parliament, a previous CEO of Samhall, and Samhall board members.

## 10.2 Different Institutionalized Organizational Types

As ideal types, the public sector organization and the company differ considerably (Brunsson 1994; Sjöstrand 1985; Wijkström and Einarsson 2006). While the logic of the public sector reflects not least the generic values of equal treatment of citizens, transparency, and legal certainty—values superior to efficiency—the business logic in many respects represents the opposite. In order to stay competitive in markets, business firms tend to treat customers and other stakeholders differently. Companies may choose to sell to some customers and not to others, and very demanding customers may be charged higher prices than other customers. Efficiency and profit are superior to values such as equal treatment, and business firms tend to keep much information hidden from the environment, not least for competitive reasons.

While most organizations today face demands from different institutional logics in society, the hybrid organization is a special case. It represents a thorough mix of common ideal types of organizations, as it comprehensively incorporates more than one institutional logic. I now turn to the demonstration of such a case of hybridity and illustrate the problematic outcomes that it may produce.

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<sup>2</sup>An authority that works with Samhall.

## 10.3 Samhall: An Introduction

At the Samhall Annual Conference in April 2018, the CEO of Samhall started her speech about the organization and its development in the following way:

We who work at Samhall, work every day to contribute to a vision. To actively contribute to a Sweden where everyone is seen as a resource in the labour market. I think Samhall is an absolutely genius idea—to help people to develop through employment when we know how much a job means. For self-realization, self-esteem, to counteract alienation, for people's ability to support themselves, and for being a part of a social context. However, it's not a matter of just any kind of jobs, but **real** jobs [speaker's emphasis]—jobs that we have gained by doing business with other business firms. Under market conditions, in competition with other business firms. A genius idea. While other countries are still using sheltered workshops, Samhall has shown that we are the business firm in Sweden most apt to adapt. We've gone from 250 workshops to a situation where 94% of our employees are out in the clients' organizations, in pure service-producing operations. We have changed from being 5000 civil servants to around 1200. That is, the majority of the jobs we create are created for the collective we have been set up to develop through work. Our mission is the same as when we started, but not much remains the same...

The beginning of this speech highlights the hybridity of Samhall in terms of the social mission stated by its principal, the Swedish government, on one hand, and the market logic on the other hand (see also Statskontoret 2017:7, p. 15). While its main purpose is a social one, emanating from the principle of equal rights and directed by the state, the incorporation of a market and business logic is reflected in the frequent use of concepts such as 'market conditions', 'business', 'business firms', 'competition', 'clients', and the like. And, as this chapter demonstrates, the market logic is not just a description presented and decoupled from daily practice in Samhall (cf. Meyer and Rowan 1977; Brunsson 1989). On the contrary, it governs much of the day-to-day operations, parallel to the underlying social purpose of Samhall, leading to dilemmas and conflicts in local practice. Moreover, it also produces criticism in the public debate, as well

as at the Samhall annual meeting in 2018, from the responsible minister in the Swedish government, and from a former CEO of Samhall.

## 10.4 The Foundation and Change of Samhall

Samhall<sup>3</sup> was founded in 1980. From the 1960s onwards, various forms of employment adapted for individuals with disabilities were developed in Sweden. These could be jobs in industrial workshops, office work, or work performed in their own homes, arranged by municipalities or county councils. Due to perceived problems in the form of a lack of coordination and significant differences between local systems, the main purpose of Samhall was to take a collective responsibility for the task of adapted employment. In 1992, Samhall was turned into a corporate group with several regional subsidiaries, and in 2002, the group was turned into one single organization, Samhall AB (Ltd.).

In 2017, Samhall had 24,872 employees and 4757 customers in 587 geographical locations. Its clients consist mainly of small and medium-sized enterprises, large business firms such as IKEA, Axfood, and Volvo Cars, civil society organizations such as Coop, and public bodies such as municipalities and county councils in Sweden. In its annual report for 2017, Samhall states that it is the country's largest service provider with a turnover of 8.3 billion SEK (approx. 0.83 billion EUR) (Samhall 2018).

As mentioned in the current CEO's speech cited earlier, Samhall has changed considerably since the start. Among the more significant changes is, firstly, that Samhall has transformed from mainly doing subcontracting work (primarily goods related) within its own organization to being a service provider with its employees based mainly in the clients' organizations (performing services such as cleaning, general staffing, laundering, janitorial services, and gardening). Samhall has thus become a provider of mainly basic services outsourced by other organizations.

Secondly, the number of civil servants in Samhall has gone from around 5000 in the organization's formative period to around 1300 in

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<sup>3</sup>Samhall was originally founded under the name of *Samhällsföretagen* (approx. 'the social enterprises').



2017, primarily due to decreased subsidies from the state over the years. Consequently, there are far fewer civil servants in today's organization to support each employee with disabilities.

Thirdly, besides the main mission—secure, permanent employment (*trygghetsanställning*) for individuals with disabilities, a second basic form—development employment (*utvecklingsanställning*) was added in 2012. Development employment involves employing people with disabilities for a limited period of time (one year). One civil servant at Samhall's head office described how the people employed in this new programme had on average been outside the labour market, and the social security system, for 11.5 years. The programme specifically targets younger adults, and offers training as well as the opportunity to try different assignments at Samhall customer workplaces, with the aim of getting a job outside Samhall when the development year has passed. In 2014, about 30% of the people enrolled in the programme gained employment outside Samhall at the end of the year, according to the same civil servant. This was regarded a success, and the number of enrollees increased from 1000 the first year to 3100 in 2017. Within Samhall, the development employment programme is described as having put pressure on Samhall's civil servants to get programme enrollees with disabilities out into the regular labour market, and that this is the most important effect of the new programme.

## 10.5 Evaluation of Samhall's Work

The owner of Samhall—the Swedish state—currently evaluates Samhall by the use of several key performance indicators (KPIs). The KPI getting the most attention by key stakeholders is the number of individuals employed by Samhall that transition to jobs in the regular labour market each year (i.e. the transition goal, *övergångsmålet*). The performance regarding this indicator—the transition KPI—is the first one mentioned in the summary of Samhall's annual report for 2017 (Samhall 2018, p. 2). Both permanently and temporarily employed individuals of Samhall are included in the calculations of the transition KPI. This KPI also represents the main target in Samhall daily practice, as exemplified by one local Samhall manager:

It's the transitions. They're everything. That's where our focus lies.

In addition, the transition KPI has two sub-targets: (1) To increase the share of women that leave Samhall for other employments. Historically, proportionally fewer women than men have gained employment outside Samhall. (2) To decrease the number of people that return to an employment in Samhall, after being out in the regular labour market. People with permanent employment at Samhall (i.e. not the temporarily employed) have the right to return to a Samhall employment within a year. About half of the individuals that go to the regular labour market return to Samhall, and this figure has remained relatively stable in recent years (Statskontoret 2017).

The Swedish state has set a target of 1100 individuals to be transferred to the regular labour market each year (in comparison to the 21,897 Samhall employees with disabilities, 2017). Samhall states that 1295 of their employees transitioned to the regular labour market in 2017 (in comparison to 1179 in 2016 and 1059 in 2015). Several other KPIs are also used to evaluate Samhall's performance—ranging from how many employees belong to one of the prioritized target groups to financial demands in terms of return on equity and financial solidity (established in 2006). While the transition KPI and several other goals that Samhall met in 2017 are highlighted in the beginning of the 2017 annual report, the two subcategories of the transition KPI are not.

## 10.6 Effects of Samhall's Hybridity

So far in the chapter, I have described the generic social mission vis-à-vis the increasing market and business demands of Samhall. Based on the empirical data, I now describe three important effects of the broad interface of the two different institutional logics—the public sector logic and the business logic. In terms of 'good or bad', the perspective taken will be the one of the people for whom the organization was founded: individuals with disabilities. The three negative effects of the hybridity of Samhall concern: (1) the working environment, (2) the support provided for employees with disabilities, and (3) the selection of employees.

### 10.6.1 Changeable, Stressful, Dangerous

In comparison to presentations of organizations—not least provided in annual reports and in top managers' speeches—everyday local practice in organizations tends to diverge significantly. Based on my study, this is also the case of Samhall. Individuals with disabilities employed by Samhall, as well as locally based managers, describe day-to-day practice, for both civil servants and Samhall employees, as chaotic—a situation that managers higher up in the hierarchy are not always aware of or comprehend. The respondents describe that Samhall currently takes on many new assignments from customers, and leaves others, without having time to think through how they should be staffed. Samhall sells as much as it can in turbulent, uncertain markets (essentially with price as the key determinant). Accordingly, many Samhall employees must frequently change work locations, facing uncertainty about where they are going to work next and for how long. And when Samhall has difficulty delivering according to its contracts, many employees with disabilities have to work overtime, and weekends, to meet the demand. A Samhall employee explains:

Often they call us when we're off duty, and say: "You have extra cleaning to do." They don't have control over their own planning.

Moreover, a local Samhall manager tells how there is a lack of coordination between Samhall's work districts, leading to even longer daily commutes for individual Samhall employees. When a relation with a client is not working, a standard solution is to move the Samhall employee, adding to the changeable and uncertain working conditions.

How, then, do the very changeable, uncertain, and in other respects demanding work conditions affect Samhall employees? While there is a wide variety of disabilities among the Samhall employees—adding to the heterogeneity of the group—a common characteristic is that they are all in need of less stressful environments than are the broader workforce in general, as described in the study. One local Samhall manager describes that this mismatch increases the percentage of sick leave among employees with disabilities, adding to the difficulties of delivering the contracted

work. Among permanent Samhall employees, overall absence due to illness increased from 12.5% in 2012 to 16.2% in 2016 (Dagens Arbete 2017). In the study, employees with disabilities describe how relocation to even more distant workplaces is used as a threat to Samhall employees who question the working conditions, adding to their stress.

With its aspiration to increase the number of contracts, jobs, and overall turnover, there are also reports that many Samhall employees have been performing physically dangerous jobs. For example, employees with disabilities have been regularly and repetitively sorting electronic waste at waste disposal sites—without respiratory protective equipment and without being informed of the risks. When confronted with the circumstances of one particular case, civil servants of Samhall referred to the responsibility of the client (Dagens Arbete 2017).

A relevant question here is why do Samhall employees accept uncertain, stressful, and even dangerous working conditions? In his in-depth study of Samhall, Mikael Holmqvist (2005) notes that a huge overall challenge for Samhall is that individuals with disabilities, often having been outside the labour market for longer periods of time, tend to suffer from a lack of self-confidence. Under such circumstances, they would be more prone to *loyalty* rather than to *voice* in, or *exit* of, the organization (Hirschman 1970) even when exposed to poor working conditions. Two Samhall employees with disabilities describe a situation where employees are generally afraid to speak their minds about the working conditions. When asked what they would like to be different at Samhall, they emphasize more training and understanding among local managers, as well as a more respectful behaviour towards employees with disabilities.

### 10.6.2 Low Support

As described earlier, the number of civil servants in Samhall has decreased from about 5000 in its formative years to around 1300 in 2017. While Samhall's top management presents this significant change as a very positive development, as it lowers the costs and increases efficiency, it also has a significant effect on the resources available to support each employed

individual with disabilities. The interviewees in the study described several problematic sides of the low resources for support.

One local Samhall manager notes the extensive need to support both individuals and groups of employees in their daily work, but also describes that local managers have no time at all to provide such support. Contact is mainly limited to the handling of immediate problems. In addition to the comprehensive short-term administrative work, as well as the responsibility for bringing in new customers and contracts, local Samhall managers also have the main responsibility for rehabilitation of Samhall employees. In contrast to the Public Employment Service (*Arbetsförmedlingen*), Samhall has no physiotherapists, occupational therapists, or similar professionals in their organization to support employees with disabilities. One local manager describes the situation:

I had 5–6 employees in need of work training under my responsibility where there had been no rehabilitation for several years. They had been constantly relocated, no rehab, no investigation. The central human resources department at Samhall is well-meaning, but they have no rehabilitation. It is the local managers who get to take care of that too. And as the local managers don't have the time, no rehab is done.

Further, the generally low level of support also affects the level of education and training. Two employees at Samhall describe how they received some instruction on how to use the cleaning equipment when they started to work for Samhall about eight years ago. Since then, however, they have not received any kind of organized education.

Andersson and Tengblad (2015) describe how organizations with proportionally few managers tend to only have time for administrative work (planning, recruiting, reporting, budgeting, etc.). Opportunities to provide the daily support needed for employees to develop their competence and increase their responsibility—that is, the manager's generic roles as 'steward' and 'teacher' in Senge's terminology (Senge 1990)—disappear. And, in the case of Samhall employees with disabilities, so too do many of the other forms of extra support often needed for this group.

### 10.6.3 Market-Oriented Selection

The market logic implies a demand for employees that sellers believe can contribute to meet customer requirements. This has also affected who receives employment at Samhall. As described by a local manager within Samhall, people further away from the labour market, due to the characteristics of their disabilities, become excluded. A respondent at the Public Employment Service—the organization tasked with assigning people to Samhall—illustrates this trend:

Samhall differs from other business firms that can choose between all candidates for a job. Samhall should not really be able to select people in that way. And I say “should not be,” because sometimes Samhall does recruit people too much like any other business firm. We might have a large number of candidates [for Samhall employments], and then Samhall takes a look and says:

“We want that one.” “Yes, but we think the need for these individuals is more substantial.” “Yes, but we’re not as interested in those people.” So there is a tension there.

The reason for this, as described by the respondent, is that the people Samhall selects seem more adjustable and productive from an economic perspective. Samhall’s interest in employing individuals with some specific types of disabilities has thereby decreased. Respondents from various interest organizations for individuals with disabilities describe the same trend. Individuals with certain types of disabilities are generally not employed by Samhall, and generally, these are the individuals in most need of Samhall support. Due to this selection, the group employed by Samhall has become less heterogeneous.

In line with this description, the Agency for Public Management (*Statskontoret*) states that individuals relatively more fit for labour market work tend to be employed by Samhall (*Statskontoret* 2017, p. 58):

Our interviews confirm the conclusions from other previous investigations, that the ability to work of individuals permanently employed by

Samhall has generally increased. Our assessment is that the number of individuals with greater demands for support and adaptations has decreased [within Samhall] and that the demands on the employees have generally increased.

#### 10.6.4 Criticism

Much of the content of what has been presented here has been subject to discussions and extensive critique in the Swedish mass media (e.g. Svenska Dagbladet 2016-04-04, Dagens Arbete 2017; Nordvästra Skånes Tidningar 2018-04-15). Moreover, it has also led to investigations of Samhall, such as the one conducted by the Agency for Public Management (Statskontoret 2017). The same year, 2017, the EU Commission investigated Samhall for inappropriate state subsidies, an investigation that resulted, however, in an acceptance of the Swedish system. The underlying critique was not about having ‘too much market’ logic, but ‘too little’. Notably, while Samhall describes that the organization meets all of its goals<sup>4</sup> as provided by the state, it also faces heavy criticism from key stakeholders. Could it be that some of the tangible KPIs rather undermine the overall purpose of Samhall, instead of supporting it? This is a question worth considering as I move on to the conclusions of the study and to a further discussion of the problematic outcomes of hybridity.

### 10.7 Conclusions and Discussion

As a public sector organization, Samhall is governed by generic values such as equal treatment, transparency, and legal certainty—values superior to, not least, efficiency. Under the increased influence of a business and market logic, however, competitiveness, economic goals, and demands for higher efficiency have created tensions and dilemmas, challenging the basic mission of Samhall.

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<sup>4</sup>This is emphasized both in Samhall’s annual report for 2017, and at Samhall’s annual meeting, April 2018.

The purpose of this chapter has been to describe and discuss problematic outcomes of hybridity—the generic dilemmas that may result from being under significant influence of more than one institutional logic (cf. Brunsson 1994; Sjöstrand 1985; Thornton et al. 2012)—in this case, public sector logic and business logic. I have presented three problematic outcomes of the described hybridity incorporated in Samhall: (1) changeable, stressful, and even dangerous working conditions; (2) low levels of support; and (3) market-oriented selection. As the three basic outcomes of the increasing market and business orientation of Samhall challenges the very purpose of the organization, Samhall has been the subject of much criticism and debate by key stakeholders. The outcomes of hybridity in terms of generic dilemmas and tensions are significantly affecting the legitimacy of the Samhall organization. While some earlier studies have described how hybrid organizations may be successful in mitigating the effects of institutional conflicts by decoupling the external presentations of the organization from daily practices (e.g. Pache and Santos 2013), this has not been the case with Samhall. Here, the day-to-day practices of the relatively transparent organization have been subject to in-depth investigation and comparisons with its presentations.

### 10.7.1 Can the Negative Effects of Hybridity Be Mitigated?

The case of Samhall illustrates that the incorporation of different institutional logics into a formal organization may indeed be problematic. The negative outcomes of hybridity may even seem unsolvable. But, drawing on the Samhall case, what adjustments could potentially be made to decrease the tensions between the different institutional logics incorporated? I close the chapter by touching briefly upon two tentative ideas.

The *first* idea is to take a more critical stance towards the overall effects of goals and KPIs used (Power 1997). Regarding Samhall's transition goal, former Samhall CEO Gerhard Larsson states that he did not want to set this goal too high, as it risked counteracting the basic Samhall mission. A transition goal set too high would carry the risk that the organization would employ only individuals with a high



work capacity, at the expense of those most in need of Samhall's support (Svenska Dagbladet, 2016-12-05). In comparison to a transition goal of around 5–6% in recent years, the goal initially set was around 3%, mitigating some of the negative market logic effects.

The *second* idea has to do with expanding practitioners' realizations of other general models of what markets are, and should be, beyond the hegemonic market model of mainstream neoclassical economics. Individual markets are ordered in many different ways. Besides diversity in market organization (rules, monitoring, sanctions, membership, etc.) and in mutual adaptation (spontaneous order between buyers and sellers), diversity may also stem from a variety of market ideas (Brunsson and Jutterström 2018). Many market characteristics in the Samhall case clearly stem from the mainstream market model of neoclassical economics. The service markets described mainly concerned standard services, markets with many and relatively anonymous buyers and sellers (where buyer organizations constituted the main work environments for Samhall employees), relatively short-term contracts (where buyers constantly chose new sellers and vice versa), and where price was the main competitive factor, demanding a constant focus by sellers on efficiency. Many of the negative effects for Samhall employees stem from these market characteristics, which largely produce the changeable, uncertain, and stressful work environments, to a considerable extent in the hands of buyers relatively unknown to Samhall. Further, the focus on price and efficiency undermine Samhall's ability to provide resources for more supportive and developmental working conditions for Samhall employees, leading instead to the selection of individuals more able to endure the described working conditions.

However, there is another market model that seems to substantially mitigate some of the problematic outcomes of hybridity in the Samhall case—a model often referred to as the 'markets-as-networks' model. In contrast to the neoclassical model, the market-as-networks model is characterized by long-term relations between buyers and sellers, the development of comprehensive knowledge about one another, and mutual adaptation and innovation in the long-term buyer-seller relation (e.g. Gadde and Håkansson 1993; Axelsson 1998). To some extent, this market model is already used by Samhall, for example, in its long-term relations with IKEA,

Axfood, and Coop. Importantly, these employment arrangements also seem to be more appropriate for Samhall employees in general as they provide less uncertainty and less changeability, a reduction of overall stress, increased mutual understanding between the buyer and seller organizations, an improvement of Samhall's knowledge of day-to-day working conditions, and improved prerequisites for collective innovative adaptation of local working conditions to the various needs of Samhall employees.

Moreover, the markets-as-networks model also has important effects for the Samhall administration, not least by decreasing transactions costs (costs for searching and analysing information, for setting up contracts, etc.) as well as costs for ongoing administration. One of the local Samhall managers interviewed describe these long-term business relations as 'much easier to handle', especially in relation to larger organizations that are more cautious about how their behaviour affects their brand. *All in all*, in the case of Samhall, applying the markets-as-networks model appears to counteract several of the negative effects of hybridity.

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# 11

## Governance Implications from a Re-Hybridizing Agricultural Co-Operative

Stefan Einarsson and Filip Wijkström

### 11.1 Institutional Logics and the Complexity of Governing Federations

The study of management and governance practices in complex organizations offers a range of fascinating opportunities. Scholarly *en vogue* topics such as organizational hybridity and the idea of different forms of institutional logics have recently been employed in a growing number of theoretically motivated accounts as well as empirically driven studies. Both the hybridity angle and the institutional logics approach have been applied in a variety of organizational settings; studies have been conducted in many different fields and industries, and both approaches have been applied and developed by scholars from many disciplines and traditions (cf. Brandsen et al. 2005; Drori et al. 2013; Mair 2015; Skelcher and Smith 2015; Thornton et al. 2012).

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Although hybridity can be found in any type of organization, and despite the fact that logics studies today range over a wide variety of sectors, there are a few organizational forms with an almost inherent hybridity set-up. Co-operatives and mutual organizations are both classic categories clearly featuring such a constitutional hybridity. The constitutional hybridity of an organization is laid down in structural components such as rules and regulations and is visible, for example, in ownership arrangements or even in an organization's *raison d'être*—in its mission—as argued by Alexius et al. (2017).

In this chapter, we follow the idea of constitutional hybridity as we seek to advance the current scholarly debate on organizational governance. We have chosen to do so by applying a structural and processual analytical framework on empirical data consisting of interviews with members and elected officials in a sizeable Swedish co-operative enterprise in the forestry industry. Although a couple of recent studies have inspired our writing (cf. Kronholm 2015; Nilsson 2018), there is a limited amount of research on Swedish co-operatives.

In our chapter here, we argue that market imperatives of economies of scale in the agricultural industry have led to increasingly larger farms and also to increasingly larger and more centralized agricultural businesses. This has in turn diminished the number of members in agricultural co-operatives, which are to govern the businesses in these co-operatives, and also increased the size and complexity of the governance task. This general development in agricultural co-operatives has been less prominent in forestry co-operatives, where economies of scale are not as salient for the forest owners as for the farmers in agriculture, but it is at least as important when it comes to the business side.

Our study indicates that issues or topics in the governance process occasionally move between different parts of the governance chain before finally being resolved or dismissed. Several routes for raising and processing issues through the internal governance system, in addition to the more common paths of either sending a motion to the Annual General Meeting (AGM) or having elected representatives bring issues to the AGM, have been identified in the study. An issue can, for example, be raised by a member or a group of members in a letter to the editor of an internal or external newspaper, creating external pressure that forces the

board or management to react. Another way to raise issues can be a letter or phone call from a member to an elected official or to the Council of Trustees, which in a subsequent step then leads to a discussion at the AGM and results in an information campaign in a member magazine. We thus argue that this development indicates an ongoing re-balancing of the hybrid character of the co-operative studied, with clear governance implications, which is also the main story of the chapter.

### 11.1.1 A Re-Hybridizing Co-Operative Governance Balance

There are many different co-operative governance set-ups, as, for example, Birchall (2014) reminds us, and there is no one co-operative standard or blueprint model but rather a number of strong candidate solutions (Bijman and Hanisch 2012).<sup>1</sup> The duality that has traditionally characterized this type of organization, its governance and its activities—an integrated balance between a business logic or commercial imperatives on one hand and some more value-based rationality on the other hand—has represented a kind of unstable equilibrium, which has been central to the different governance models and solutions.

Many of the major co-operatives and mutuals in several Western industrialized countries have undergone an interesting development in recent decades, and this co-operative equilibrium is slowly changing or shifting, which could be understood as one effect of a slowly renegotiated social contract (Wijkström 2012).

In this chapter, our primary concern is not the possibility of the organization becoming more corporate-like (cf. Maier et al. 2014) but rather with the process leading to a possible new equilibrium or balance between the business logic and the more value-based logic. There are several possible drivers interacting in this development where, for example, the changing composition of the members is one important factor. In the case of forest owner co-operatives in particular, it has been noted that the changing characteristics in the membership population exert pressure on

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<sup>1</sup> See Einarsson (2012b) for a similarly scattered picture of the constitutional hybridity design in a selection of other types of large membership-based federations.

and challenge the organizations to adapt both their service offerings to suit the different member categories and their organizational structures to accommodate and adapt to the new situation (Kronholm 2015).

One example or result of this change is the technical division of co-operative organizations in many industries into a separate part for business (often structured as limited companies) and a special membership-based organization (often in the form of a federated structure). For many years now, we have seen a growing number of incorporations and business combinations in many of the older co-operatives. This development has led to a subsequent and marked change also in the mix and balance between the different dimensions visible in the membership base, not only in the co-operative movement but also in many other large member-based organizations (Berry 1989; Skoçpol 2003; Wijkström 2012).

When the previous equilibrium between the different logics and motives is disrupted (unintentionally, through external pressure) or changed (deliberately, and more strategically), this also tends to affect the governance system of the organization, especially when these changes are related to and affect the constitutional hybrid character. One of our findings from previous research (Einarsson and Wijkström 2015) is that this development forces the system to shift from the previous or original co-operative model for corporate governance to seek a new form of balance. One unifying characteristic in such a development seems to be that, in the new and often more loosely decoupled system, the organization attempts to streamline the respective operations of the two logics as well as creating and up-holding new borders between them.

The part of the corporate governance that previously involved coordination between the branches, formerly heavily integrated into the co-operative solution, is instead now being replaced by other, even legal, forms of coordination between the new and different entities. An ongoing process of change is in turn altering the earlier balance between the logics, as the constitutional hybridity of the organizations is being re-balanced. Thus, in many cases, it is still unclear whether the co-operative nature of the earlier design can be preserved through these fundamental changes, and—if so—how.

Despite the described development, which has the potential to weaken traditional member control over the business operations of the

co-operative, we also know from previous studies that many members in co-operatives—particularly agricultural producer co-operatives—tend to consider their democratic control crucial and that those members attach strong importance to their participation in the democratic governance system (Österberg and Nilsson 2009).

We also know from earlier studies that members in forest owner co-operatives in particular tend both to display a spectrum of values associated with their forests as well as to differ in how they perceive and construct loyalty to their organization according to how much they have traded with it (Björstig and Sténs 2018, Staal Wästerholm and Kronholm 2017). Rather than all members being single-mindedly focused on the profit dimension of their ownership, or primarily being interested in abandoning the co-operative model, we can instead expect a diversity of utility functions among the members.

It could thus be argued that we have a situation where the current members may need to find new roles and new balances within the new or emerging governance settings in the newly re-hybridized co-operative enterprises. The range and types of different membership roles available in the organization thus become a critical factor in the discussion and design of co-operative governance.

## 11.2 Memberships and Federations

Following Cornforth (2004, 2011) and Cornforth and Brown (2013) as well as Steen-Johnsen et al. (2011), we apply a holistic approach on governance, which looks beyond the traditional agency theory perspective, and take our point of departure in more general research on membership-based organizations (see also Einarsson 2008). In this approach, the membership component—and thus in large membership organizations, also the federative element—is considered of importance especially since this intensifies the tension between the need for efficiency and centralization and the need for democratic member representation as argued by Widmer and Houchin (1999) as well as Cornforth (2004, 2011).

We have studied the governance structures and processes in one of the larger organizations in the historically strong and influential Swedish



co-operative tradition within the agricultural and forestry industries, namely Södra. Södra is a large producer co-operative in the forestry industry with more than 50,000 members, some 3500 employees and an annual turnover of about 2 billion EUR.

The role of the members in Södra is central to our analysis—members who are also the owners and main suppliers of the raw material for Södra's pulp mills and sawmills. We focus, in particular, on the arenas used by members to influence the strategic governance of their organization. We have been able to identify in which specific arenas and through which actual processes membership influence is channeled into the governance of this major Swedish co-operative by conducting semi-structured interviews with rank-and-file members, but also with elected officials and employed industry representatives in Södra between 2011 and 2014.<sup>2</sup>

The main platforms for exercising member influence found in the study were—to summarize this part of our results—the AGM, different membership magazines, external news media and joint co-operative arenas such as meetings and trade fairs. We have also analyzed several means and processes used by the members in their governance, such as formal motions to the AGM, letters and missives to different boards within the formal governance system and, finally, training courses. We return to the arenas and the means—as well as the main actors—later in the chapter, but let us first recapitulate some of the core characteristics of co-operatives and their governance.

### 11.2.1 Membership-Based Governance in Federations

It is important to note that for the particular type of organization we study here, the co-operative form, a linchpin in the classic co-operative idea is that the individuals who use it (whether primarily consumers, clients or, as in this case, producers) also own and formally control it. This special ownership arrangement provides the individual with a dual relationship with the organization. In the literature, this idea is usually called the “co-operative identity principle” and has had a significant

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<sup>2</sup>Our interviews ranged from 90 to 150 minutes and were transcribed and analyzed thematically with the help of NVivo software.

impact on how the relationship between the individual and the organization handled in earlier research and analysis. This co-operative identity principle has also been at the core of how the different rationalities and logics that govern the idea of the organization should—at this level of the organization—be integrated and combined. This very special organizational feature is also one of the most important conditions that creates a special situation for corporate governance in co-operative enterprises.

The classic federation is based on a chain of representative democracy, where each member is linked to a local association (often geographically based), which together with other local organizations in a given region sends delegates or representatives to some kind of district convention. The federations typically consist of three interrelated levels: local, regional and national. The members of the local associations elect the board of the local association and they also elect delegates who, together with the delegates from the other local associations in the region, form the regional general assembly. The regional assembly elects a regional board that handles the issues common to the local associations of the region and also elects delegates to the national general assembly. The national general assembly in turn elects a national board that handles the federation's issues at the national level. The governance model is thus based on representative democracy, where each individual member is typically tied to a local association.

One of the board's most important functions is then to appoint and oversee the operational management—a federal director, secretary general, president, CEO or equivalent. This means that a crucial portion of the federation is characterized by a democratic management or governance function, where members play the lead role by choosing who should lead the organization, alongside a non-democratic operative structure with the employed staff at the top. In other words, through the democratic structure, members choose the management who then meet them in the non-democratic, operational structure of the federation, in their role as suppliers or customers to the organization. It is important to keep in mind, however, that the executive operating management, at least in the ideal-typical federation, cannot make decisions other than those delegated to it by the assembly or the board through statute and policy decisions.

The democratic system makes it possible for the members to both monitor and demand accountability from the management, for example, by not giving hired professionals considered to not be working in the federation's best interests renewed confidence. The sole fact that this mechanism exists probably has a disciplining effect on management, while it obviously also requires active members that take part in the governance of the federation, or at least in the election of the federation's board. External and internal motivational factors of different kinds for the members should of course also be added. The external motivation factor most often cited in previous research is the social capital that elected representatives build up inside and outside of the federation and which they are reluctant to lose. Added to this are internal motivational factors linked to the individual's embeddedness in the organization's ideology or value system. The organization's shared value system partly determines what external and intra-organizational signals reach into the organization's management system, though this does not mean that there are no divergent interpretations of what constitutes the organization's value system. It is rather the other way around, and one could even say that this struggle for the shared value system is a key task for this type of organization. One can also imagine that those who feel close to the shared value system might be more interested in taking an active part in the governance and management of the organization (Einarsson 2011, 2012a; Hvenmark 2008).

### 11.3 Different Membership Roles Within the Co-Operative Organization

The identity of the individual co-operative member—in this case the forest owner—is, as it is for all other individuals, complex and composed of many different and at times competing rationalities and logics. The balance between these logics is constantly being renegotiated over time and between the member and his or her environment. In this section, we bring together the *membership-based governance* and the *different control processes*. To enable us to analyze this complex situation,

we use an analytical ideal-typical model of the co-operative firm. The basis for such an analysis is a model in which membership is regarded as a multi-dimensional relationship between the member (in our case the individual forest owner) and the organization (see also Einarsson 2012b)

First, we observe in our case a *seller* role, in which forest owners see themselves mainly as a supplier or a customer of the co-operative, where the relationship between the forest owner and the association are characterized primarily by a desire on the part of the member to get as high a price for the commodity as possible. This more utility-based relationship is characterized by distance between the forest owner and the co-operative firm, a relationship with a short-term orientation and an understanding that the forest owner is not really actively involved in either the management or the governance of the co-operative. In general, in this role, the member primarily has his or her relationship to the co-operative in horizontal processes, and the relation is thus influenced by (and in turn affects) the operating logic of the firm. A second role we observe is the role of *principal*, where members see themselves as owners of and responsible for the business, both in the short and long term. The principal's relationship is characterized by an operational rationale, which means that the forest owner also displays an interest in and feels responsible for the whole business and not just for the economic return ("utility") it can provide.

In many aspects of agricultural and forestry co-operative firms today, however, the role of principal seems primarily to be equated with what we might understand as a *shareholder* role, where the forest owner, via his or her membership, is likened to a shareholder and where the size of the capital contributed can be equated with share capital, which could also be seen as an indication of increased corporatization or commercialization of the co-operative, although this is not our main focus here. This relationship can be described as characterized by a financial rationality where members see the relationship mainly as a financial relationship that should provide the highest return possible. Here, the content of activities is incidental and it is the return that is in focus.

### 11.3.1 Södra: A Successful Co-Operative Business Group

In both agriculture and forestry, Sweden has had a long and strong tradition of co-operative enterprises. The main aims of the early co-operatives were to improve quality control and to reduce purchase prices and transport costs for the members—the farmers and forest owners.

The enterprises were also organized early on to facilitate the exchange of knowledge and experience between forest owners. Initially, small local associations were formed, but the need for larger units soon became apparent, and a next step was often to form regional associations. Most recently there has been considerable expansion of both the regional scope and the size of production facilities in the industry. As a result, a development toward increased organizational centralization, a higher degree of professionalization and also more market-like procedures can be noted in most of the major co-operatives. This regional structure is still visible and important in many of the organizations, although many of the business operations in the co-operatives have been steadily centralized to national-level structures with a growing degree of hired, professional management. Characteristic of the co-operatives in both forestry and agriculture are the democratic control, the idea of fair distribution of profit between the members, and an equal level of financial investment from the members, and the formal education level of employees and management at the national level has also increased substantially and steadily over the last decades.

Södra's history could be said to be the story of how a group of small forest owners came together to create a successful and growing industrial group, and the groups striving to receive a good price for their forest raw materials has been a major driving force since the 1920s. In the 1920s, a number of smaller county associations in the region of Småland in southern Sweden merged to form a regional association. This was the first in a number of subsequent mergers that helped Södra to grow geographically, *a growth that continued to the end of the century*. Production in Södra's industries remained high throughout the 1990s and into the early 2000s, and the profitability of their industries increased.

Today, more than 50,000 forest owners in southern Sweden are members in Södra, and together they own half of all the privately owned forest in the regional area. The basis of the economic association—which forms the core of the company group—is 36 so-called production forest zones (*skogsbruksområden*). Södra is also a major employer in the region with some 3500 employees working in areas ranging from forestry management and environmental conservation to sales and product development. The Södra Group is large and active also in the global market.

The group's commercial and international operations provide Södra with markets for raw materials derived from the forest as well as for different forms of refined products produced by Södra's industries. Apart from traditional forestry operations, Södra has also built up a considerable production of refined wood products and, more recently, biofuels. The basic idea is that the members supply their own industries with raw materials from their own forests at market prices, and the products—raw material products as well as more refined timber products, pulp and lately also energy—are then traded on both local and international markets.

### **11.3.2 The Governance in Södra: An Ongoing Shift of Balance**

To facilitate member influence, annual meetings are held at which elected representatives are chosen to form the most important formal governance link between rank-and-file members and their representatives at the central level, in the general assembly and on the board. These formal annual meetings also provide members with an opportunity to influence the business and the board of directors through drafting motions or by submitting proposals, which are some of the most important formal means available to members to exert influence at this level of the organization.

In our interviews with a selection of key representatives elected to their positions by the members, we found a growing concern that the delicate balance between the two basic logics or rationalities of the members—and of the co-operative as a whole—discussed earlier, has been disrupted over time. According to our interviews, the individual forest owners are primarily and increasingly considered (by the co-operative and its

management)—and also behave—as if they were “only” providers (or possibly buyers) rather than as principals of the co-operative. This development is perceived by our respondents to be coupled with the fact that the forest owners (members) are also becoming more short-term in their views on and opinions of the activities of the co-operative.

In many of our interviews, the elected representatives further stated a strong desire that the forest owners be moved from the role of provider to a role which more or less resembles that of a normal shareholder in a traditional for-profit enterprise. The representatives seem to hope that such a transition could shift members from their current, more short-sighted position (which is experienced as problematic) and the rather narrow provider-perspective in their relationship with the co-operative and its industries to embrace a more long-term and broader stewardship approach. It is, from our interviews, unclear what exactly would be the main difference in the content and formal construction of the membership and its relationship to the co-operative, but the ambition to change and experienced need for change was shared by several of our respondents.

But by whom, in which arenas and through which processes does the actual governance take place in a large and successful forestry co-operative like Södra? We turn to these important matters in the following section and do so under three different headings where we describe *the main actors in governance*, *the core governance arenas* and, finally, *the key forms of formal member input in the decision processes*.

### 11.3.3 The Main Actors in Governance: Trustees at Different Levels

As mentioned in the sections earlier on the general dilemma of governing federations, trustees could be seen as one of the most important actors in the governance system of a co-operative. Thus, it is of interest to investigate what qualities a competent trustee should have.

There was a time when the nomination committee wouldn't nominate anyone that couldn't use a chainsaw. And for a long time you had to live on your forest estate in order to be considered for a higher office. But this has

changed; the important thing is the individual's interest and knowledge about forests and forest policy. (Manager, Södra)

This is something that, interestingly enough, has changed over time. Earlier it was considered necessary to be a forest owner in order to qualify for a position on the national board of the co-operative, but it is now possible (and sometimes even necessary) to bring in individuals with outside experience, for instance, from the various business segments that the co-operative has operations in. Several of our respondents also mention the necessity and desirability of doing so, at the same time as the importance of ensuring that there is member representation on the national board.

The composition of the national board is very important. We just got this guy who has many years of experience from the business world and I think it's great that he was recruited to the board. But I think there needs to be a mix. We need both people that have taken the long way and are forest owners, and externally recruited people. But, most importantly in my mind, is that all board members are also members of the co-operative. And with more than 50,000 members, I think we have a pretty large pool to choose from. (Regional chair, Södra)

This quote stresses the importance of making sure that co-operative members are represented on the national board, in part perhaps as a safeguard against the oligarchic tendencies mentioned in this next quote:

And then it just so happens that when you've been on the board for a long time, it becomes likely that you associate yourself more and more with the companies. I'm not saying that it happens to everyone, but there's still a risk that it happens. (Regional chair, Södra)

So even though the ideal-typical image of the board member has changed somewhat, from long-time forest owner to externally recruited professional, the respondents seem to think that it is nevertheless important to maintain the balance between internal and external board members and to safeguard against oligarchic tendencies.



The trustees also function as the extended arm of the co-operative and ensure that all members feel included and informed in the running of the organization, as well as providing the organization with information from the ground, so to speak.

I think that it is very important to keep the local connection. It's a way for the organization to keep tabs on what's happening out there in the woods. People talk to the trustees and that keeps the information flowing both ways. I don't know how much that costs us, but I think it's too important to lose. (Member, Södra)

The majority of the respondents spoke at length about the importance of finding, recruiting, training and retaining good trustees in order to maintain the co-operative organizational form. In order to embed decisions, it is also very important to make sure that the trustees are actively engaged.

We are engaged in finding the right trustees and motivating them to contribute. I think this is the single most important question for us if we are to continue as a co-operative. Because if we get it wrong we'll lose the trust of our members and then we'll be in trouble. If we become more distanced from the forest owners we'll lose the co-operative culture and turn into a regular business. (Regional chair, Södra)

You can never lose sight, in a member-owned company, of the goal to have as many people as possible with you on every single decision. The day you say that you can't waste money on anchoring decisions with the members, you may as well just turn it into a stock company. (Manager, Södra)

Several of the respondents state that when the system functions as intended, reaching decisions, and maybe even more importantly implementing them, is often as efficient (or even more so) as in other organizational forms.

### **11.3.4 The Core Governance Arenas: Formal As Well As Informal**

In this section, we have gathered examples from our study where the respondents mention different forms of arenas, such as meetings and

media, and deem them important in the governance of the co-operative. As in the previous section, we have chosen to include a selection of illustrative quotes to convey the opinions of the interviewees.

### **Different Types of Meetings**

The most important platform in the democratic system of the federation, at least formally, is the general meetings held at different levels (local, regional and national) in the co-operative. However, the majority of the respondents state that these meetings do not usually play a practical role in the decision-making process since the issues discussed in them are anchored with the delegates long before they come up at the AGM. As one regional chairperson of Södra expressed it:

I would say that neither the AGM nor the annual regional meetings have any meaning politically since you always vote for the suggestions that are prepared in advance. But they are important from an information standpoint. (Regional chair, Södra)

At the same time, several respondents mention that the informal preparatory work before an issue is raised at the AGM is characteristic of successful leadership work within the co-operative movement, as illustrated in the following quote from a representative of the management at Södra.

Some say that the co-operative decision-making model is slower than the decision model in companies and that this is a problem. But I do not agree. If you have identified the question beforehand and processed it with the trustees you can have faster and more robust processes when it comes to the more difficult issues. (Manager, Södra)

Local AGMs are often described as relatively peaceful gatherings and many respondents mention that the restructuring that has taken place in the democratic structure (decreasing the number of local associations by increasing their geographical catchment areas) has led to a greater distance between the individual member and the AGM.

It can be hard for an ordinary member to raise an issue. Since he has to raise it at the annual regional meeting or write a motion. And in our organization, it has to pass the regional board before it can reach the AGM and, I mean, it is only one or two motions that pass each year. I think this is a problem—that it's hard for an ordinary member to voice his opinion. (Regional chair, Södra)

Several respondents warn that if this trend continues, it may create a democratic deficit since it radically reduces the interface between the members, the trustees and the management. As one member expressed it:

I've only been at two AGMs so far and they have been rather quiet, and there were no really difficult questions raised. I think there needs to be a balance, they can't be too quiet, but they shouldn't be outright hostile either. (Member, Södra)

The respondents agreed, however, that the local AGM has an essential function as a two-way information channel. It provides an arena for members and management to meet and discuss various decisions and choices, and it also gives the board and the management an opportunity to gauge the sentiments of the membership. Several management representatives mention that they always try to have representatives from the national board and top management team at every regional AGM.

Several respondents also mentioned that a contributing problem is that the AGM season is very intense, especially as many members and trustees—as forest owners and farmers—are also involved in several other co-operatives, not only Södra. Opinion among the respondents regarding whether these meetings are well attended or not is divided, and the position taken seems to correlate with the respondent's position within the co-operatives.

To get more members to attend the AGMs, several interviewees noted the importance of making the meetings exciting and interesting, for example, by inviting interesting speakers to give talks on relevant themes. However, there is disagreement among the respondents about whether social activities and get-togethers would increase or decrease the formal participation in meetings.

According to several respondents, the annual regional meetings are not very well attended, which is seen as a problem.

I think too few of our members attend the regional meeting, I think it is about 19 percent. Attendance has been around that level for a long time so at least it doesn't decrease. But it is too low. (Regional chair, Södra)

Several of the regional chairpersons interviewed expressed that they felt the formal annual regional meetings were very important to them since it was there they were able to connect with their members and also that they found the motivation to continue their work as a representative for ordinary members.

Other types of meetings also offer important governance arenas, according to our respondents. Several of the people interviewed mentioned that the trustees played a crucial role as an interface and communicators between the members and the organization. One example of this mentioned in the interviews was when trustees invite members to their homes for informal talks on various issues. This is described as a very efficient method, but at the same time very time-consuming for the trustees.

All members of the regional board were supposed to, three times each year, invite interesting members to their home and discuss current issues with them. This way the board gained more information about what was happening in the region. But we could also get information out to the members. (Manager, Södra)

This method is quite demanding since it requires deep knowledge and expertise on the part of the trustee, as well as a willingness to stand behind the decisions being taken in the organization. As the same manager at Södra expressed it:

I think they're really effective. But it puts a lot of demands on the trustees. They really need to know the issues since they can't hide behind a board member or someone from management. They need to have the courage to take responsibility. (Manager, Södra)

Personal contact via email or phone calls was further mentioned as another effective means of influence, as expressed by one member of Södra:

I think I'd have the same chance to influence if I sent an email directly to the chair of the national board as if I went to the annual regional meeting. I mean, I think he would read it if he had time. He probably gets hundreds of emails a day, but maybe a secretary or assistant would read it. I think the chances are the same as with going to the annual regional meeting or contacting someone on the council of trustees. (Member, Södra)

This seems to be partly due to the fact that phone calls and personal conversations are informal and not put on record. A regional chair of Södra explains:

Sometimes phone calls or personal conversations are the most efficient way of getting things done in organizations like this one. Sometimes having things in writing becomes problematic since you then have everything in black and white and that can make people angry. But if you can have a one-to-one talk with someone, you may be able to gradually reach an understanding and agreement. (Regional chair, Södra)

This makes social contacts important for the governance function. The same regional chair continues:

Over time you learn how things work, you find channels that let you bypass a lot of things. You know who to talk to in order to get things done. After a while you know which official you should call and which trustee you should talk to. (Regional chair, Södra)

Apart from the formal annual meetings, there are also several other types of meetings such as owner's forums, machine fairs and training seminars, which play a role in the governance of the organizations, sometimes more by coincidence.

It's also rather obvious that a lot of members come to different fairs such as machine fairs. I would assume that a lot of interesting and important discussions, from a governance perspective, take place there. (Manager, Södra)

## **Media as Another Important Arena for Governance: Internal As Well As External**

The membership magazine was mentioned as an important arena where both ordinary members as well as trustees and members of management could communicate with each other. Several respondents stated that, historically, there used to be more space for letters to the editor from the general membership but that management has increasingly been taking over this part of the broadcasting space and turning the earlier membership magazine into a corporate platform for communication.

There has been discussion that the magazine should be used as a platform for debates. But it's hard to keep a discussion going in a magazine that comes out 5–6 times a year. The time span becomes too large to keep the discussion alive. (Manager, Södra)

It was noted in the interviews that members sometimes used letters to the editor to create public opinion on a particular issue and/or to test whether there was commitment to it. It seems that this arena is more relevant for local issues than for national issues.

Membership magazines were mentioned as important arenas also for governance discussions, even though they seem to have been transformed over time to something that might better be described as “mouthpieces” for the national parts of the corporation. Therefore, for this function, magazines seem instead to have been replaced by external media, where members sometimes send letters to the editor but also where the journalists pursue issues that they find important.

External media are thus mentioned as an important arena for governance communication, although far less often than the internal membership magazines. The debate in external news media is often more critical toward the organization than can be seen in the corporate (member) magazines, but a majority of our respondents think it is important in order to give voice to more opinions and different viewpoints.

It happens that members who feel that they don't get answers through the normal channels turn to writing a letter to the editor in an external magazine. Or talk to a journalist. There's always someone who's not happy with

a decision and this might make them want to form public opinion around it. We try to catch this as early as possible in order to respond to it as quickly as possible. (Manager, Södra)

The external media is also seen as a difficult arena for the governance debate, however, where not all journalists in the agricultural press are considered to always have the financial and business knowledge required, and the business press often lack knowledge about the co-operative form and the particular reality facing these firms.

Media is a difficult arena, especially since I find the agricultural press rather incompetent. They don't know much about how co-operatives work so their reports are rather strange at times. But we do try to create a good dialogue with the press. (Regional chair, Södra)

Another way to raise an issue within the co-operative through media mentioned in the interviews was for a member or group of members to write a critical letter to the editor of an internal or external newspaper. Such an action creates a form of external pressure on the organization, forcing either the elected board or the professional management to react and respond. There were also indications during our interviews that some outside local journalists have been key to starting discussions internally within the organization, which of course opens the way for them to have an influence on the governance processes within the organization or, as expressed by one Södra manager:

Agricultural journalists have good contacts with farmers and it happens that they call around in order to find stuff for an article or to pursue an angle. But that's just the way they work. (Manager, Södra)

### **11.3.5 The Key Means for Member Input into the Decision Processes**

In this final section of empirical evidence, we focus on the different forms of member input mentioned in the interviews. We have brought together responses indicating formal as well informal member input aimed at

internal decision processes of the co-operative: motions for the AGM and letters or missives to representatives and different boards.

### **Formal Annual General Meeting Motions**

One of the most important formal means which members can use to bring up an issue at the AGM is the motion (Gustavsson et al. 2016). In our study, however, several respondents described the motion as an unfashionable instrument that takes far too long to work for it to be effective in today's co-operative movement and firms. There are also several respondents who state that most motions have to do with operational issues that should not be discussed at the AGM.

The majority of the bills from members are rather operational. About things like logistics and prices. It's a lot of stuff like that. (Member, Södra)

Some respondents note that they have seen a trend over time where the national board and the management have begun to treat motions from members more parsimoniously and feel they are too often rejected out of hand. There are also respondents who state that a motion has a long way to go before it reaches the AGM.

The main problem is that a bill has to pass through the regional boards before it reaches the national board. And it's very seldom that a bill survives the whole way. It's very seldom that more than one or two bills survive. This makes it hard for ordinary members to get their voices heard, especially since this is sometimes the only way an individual member can have any influence on the organization. (Regional chair, Södra)

Interestingly, however, several of the examples we found where an issue raised by the members has led to a change in the co-operative's activities, it has come via the motion path. Those changes have been rather small, however, and several respondents say that a faster and more efficient way of influencing the co-operative is by sending a missive to one of the different boards in the governance system.



## Missive to Different Boards in the Governance System

An informal variation of the motion is the missive in which one or several members write a missive that is sent to the board or the management of a particular industry and asks a question. In this context, it is also mentioned that phone calls and personal meetings with local representatives of that industry are also seen as a viable option for having an impact in more operational issues, rather than the formal democratic governance process. Several interviewees felt that the missive was better, faster and a more up-to-date method than the motion, especially since it can be employed at any time and not just once a year. Overall, the respondents are of the opinion that the informal lines of communication are highly important in both the horizontal and vertical governance processes.

We get missives all the time, from members and regional boards. I think that's a good thing because it shows that the system works. Missives are a faster way than motions, and I find that motions don't have a positive impact on the organization; it isn't a very modern instrument. If a missive is relevant, it will be brought to the Council of Trustees. Otherwise it will be sent to the relevant board or company. Sometimes [missives] are discussed at the national board or at the AGM. (Manager, Södra)

## 11.4 Discussion and Concluding Remarks

The material from our in-depth interview study presented in this chapter indicates that issues or topics of strategic importance within Södra occasionally both emerge and move between different arenas before finally being dealt with in the formal part of the governance system. We have identified several routes, besides the more common ways of sending a motion to the AGM or having elected representatives bring issues to the AGM, whereby issues are raised and pass through the more informal or internal governance system. One such route mentioned by our respondents is that an issue can be raised by a member or group of members in a letter to the editor of an internal or external newspaper, thus creating external pressure that pushes the elected board or professional management to

respond, moving the issue into the formal governance system. Another example is a letter or phone call from a member to an elected representative or to the Council of Trustees, which can lead to a formal discussion at the AGM and from there over to an information campaign by the co-operative in the member magazine.

One result of our analysis is that informal contacts and informal communication seem to be particularly important paths for the integration of rank-and-file member influence in the formal governance processes within the studied co-operative firm. At the same time, and due to the importance of such informal channels in the case organizations, several different channels and platforms are employed at the same time in a kind of parallel strategy. It further seems as though certain matters in the governance agenda have moved back and forth between different arenas and different processes, before reaching closure, thus indicating a rather complex governance system where informal components are intertwined with more formal structures and procedures. One possible interpretation of this is that a parallel practice has been established in the organization, intentionally or having emerged more organically, in order to guarantee that decision-making does not occur within too limited or too narrow a circle of people—to avoid “group think”.

Another conclusion is that industry trade fairs, seminars, targeted training programs and other joint platforms seem to be key informal arenas for driving membership-based governance, at least as observed in one major co-operative organization studied here. These occasions provide the members with both the means and the opportunities to participate in the governance of the co-operative and also serve as arenas where members and professional managers of the firm can meet outside of the more formal governance structures.

We have also found in our study that the discourse around who can be viewed as competent to hold a position on the board of a co-operative has changed. From board members having to be a regular member of the co-operative, it is now possible (and sometimes even necessary) to bring in individuals with external experience, for instance, from the different business segments in which the co-operative operates. This change is in line with the increasingly larger, more centralized and complex operations of the businesses that the co-operative operates and that rein-

force the ongoing de-hybridization of the co-operative. At the same time, our respondents stressed the importance of ensuring that the members are represented on the national board, in order to safeguard against the otherwise oligarchic tendencies in the professional management, which could be understood as creating new opportunities for re-hybridization.

The current study also indicates that actors within the forestry co-operative find the motion to the AGM to be an unfashionable instrument that takes far too long to work for it to be effective in today's large co-operative firm and that a missive or a phone call to either the board or to a business manager is a more efficient way of influencing the co-operative. This is also well in line with our earlier discussion on the democratic deficit created by a shrinking number of members and a growing and increasingly complex industry. This development, from motion to missive, does not seem to diminish the role or the importance of the democratic governance in our study, however, but rather complements and modernizes it. We thus argue that this development indicates a re-balancing of the hybrid character within the organization, with clear governance implications.

Finally, returning to the distinction of constitutional hybridity (Alexius et al. 2017), we thus find evidence of ongoing internal parallel processes of de- and re-hybridization (Wijkström 2011) of the co-operative under study. Formal governance practices are in transition, possibly as a result of internal and external transformations due to market imperatives of economies of scale in the agricultural industry, as well as an effect of substantial changes in the membership composition in many forest owner co-operatives. These changes are followed, we argue, by attempts in the organizations to find a new equilibrium within the governance of the constitutional hybrid form that characterizes the co-operative form. However, we do not argue in this chapter that we see an increase in more business-like governance in our case, as is discussed by Meyer and Maier (2015), for example, for many civil society organizations, nonprofits and voluntary associations. This might well be the case also for large agricultural co-operatives, but what we find in our study is instead a re-balancing of the different logics, perhaps toward a new equilibrium.

## Appendix: Interviews

Name	Title	Organization	Date
Lars-Erik Åström	National chair	Södra	2011-02-07
Leif Brodén	CEO	Södra	2007-09-03
Magnus Berg	Member director	Södra	2007-08-27, 2011-02-01, 2013-06-12
Ingvar Karlsson	Former member director	Södra	2010-12-28
Ingemar Svanström	Member	Södra	2010-03-16
Leif Jonsson	Member	Södra	2010-03-17
Leif Slöjdmark	Member	Södra	2009-12-11
Norma Slöjdmark	Member	Södra	2009-12-11
Åke Carlson	Regional chair	Södra	2013-05-21
Albin Gunnarsson	Regional chair	Södra	2013-06-10
Camilla Logarn	Regional chair	Södra	2013-06-19
Magnus Persson	Regional chair	Södra	2013-06-14
Gunnar Thorn-Andersen	Regional chair	Södra	2013-06-14
Mats Löfgren	Regional chair	Södra	2013-06-19
Siw Abrahamsson	Regional chair	Södra	2013-06-10
Tomas Andersson	Regional chair	Södra	2013-06-10
Zeth Bergström	Regional chair	Södra	2013-06-14

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# 12

## 'Becoming a co-operative?': Emergent Identity and Governance Struggles in the Context of Institutional Ambiguity in a Citizen-Led Health-Care Cooperative

Mirjam D. Werner and Sylke F. Jellema

### 12.1 Introduction

Academic attention on the increase of social enterprises has grown enormously in recent years. Typically, this attention has been geared toward new and exciting start-ups that look to combine profit-making with contributing to the greater good, through the aspiration to create social value. Less often attention is focused on organizational forms such as cooperatives or family businesses that have existed for hundreds of years and have long managed to incorporate longer time horizons, value creation for a multitude of different stakeholders, as well as creating economic stability (see Chap. 1).

Interestingly, in the context of decreased government involvement in sectors such as housing, energy and health care, Europe has witnessed an

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increase in the number of a specific form of cooperative organization, namely the citizen-led cooperative. Organizing themselves in these cooperatives, citizens have begun to ‘take back’ power around issues that concern them. In large parts of Northern Europe, for example, citizens have started to take energy production into their own hands. Through the collective buying of wind turbines or solar panels, local residents have been able to both spread the costs of investment and share the profits of energy production. More importantly, this way of organizing offers local communities a sustainable independence and enables them to cater to their exact needs ([REScoop.eu](http://REScoop.eu)). Zooming in on the health-care sector, over the last couple of years, radical changes can be observed. In the UK, Sweden, Italy and Belgium, citizens have founded cooperatives through which health-care services are provided. In the Netherlands, between 2013 and 2016, the establishment of citizen-led health-care cooperatives increased by almost 1000%, growing from 30 such initiatives in 2013 to more than 100 in 2014 and continuing to climb to 320 registered initiatives<sup>1</sup> in 2016 ([www.invoeringwmo.nl](http://www.invoeringwmo.nl); Movisie 2014; Movisie/Vilans 2016; [www.kcwz.nl](http://www.kcwz.nl)). Large institutional changes, such as the implementation of new regulations and the expectation that citizens take charge of their personal health-care situation, have contributed to this growth. In addition, most of these health-care cooperatives have been established in small villages or rural areas. Often, the loss of facilities and/or services in small communities due to regulatory changes have led to a perceived sense of urgency and triggered these citizen-led initiatives (Schoorl and Winsemius 2015).

While it seems that citizens are keen to take an active role in improving health-care services, these citizen-led cooperatives at the same time face institutional ambiguity and complexity. In particular, concerns have emerged in terms of legal and regulatory issues, financial access, collaboration with other parties in the health-care sector, and the growth and development of the cooperatives themselves, especially in terms of engaging members (Movisie/Vilans 2016). The fact that the institutional

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<sup>1</sup> Many of the citizen-led initiatives in the Netherlands combine activities and services in the domains of health care and housing, for example, projects to build intergenerational living complexes that include care services. As such, the 320 registered initiatives mentioned here include cooperatives that combine health care and housing.



setting remains in flux has important implications and consequences for the cooperatives. Not only do they face specific governance issues (Mair et al. 2015), they also struggle with their own hybrid identities (Battilana and Lee 2014; Navis and Glynn 2010).

This chapter adds to the body of literature on these issues and draws on the findings of an ethnographic study that followed a group of individuals living in an island community who have set up a health-care cooperative, *Texel Samen Beter (TSB)*, with the aim of improving health-care services in their community. Founded in January 2014, TSB has since been aiming to become a fully functioning cooperative and trying to recruit as many members as possible in order to become a recognized actor in the wider health-care landscape, which in itself is transforming rapidly. TSB's board is made up of a combination of founding and non-founding members, all volunteers, who in their spare time are trying to make the cooperative a success. Given the emergent character of the organization as well as the changing institutional landscape, the board as well as the wider membership of the cooperative face a great deal of uncertainty and ambiguity regarding how to make sense, both individually and as a collective, of TSB's identity and purpose.

Since its foundation, TSB has slowly but surely carved out a position for itself through the continuous interaction with other actors in the health-care industry, for example, local government, health insurance companies, health-care providers and citizens. Gaining legitimacy in the eyes of these different actors has proven difficult, however. Particular challenges the cooperative faces include recent institutional changes that have led to increased institutional complexity and ambiguity for all of the actors involved, for instance, the local government receiving numerous new tasks in areas where it has no experience, as well as internal identity questions related to how the cooperative wants to define itself and how it can engage its members (O'Toole and Grey 2016; Yanay and Yanay 2008). The resulting institutional uncertainty from regulatory changes at the national level that have not yet been fully settled means that the institutionalization of new arrangements and taken-for-granted practices and actors at the local level is also still in motion. Consequently, the identity of the cooperative is one site where this institutionalization takes place. In the absence of an identity clearly defined by the cooperative itself, external

actors have attempted to impose their interpretations and normative understandings of the cooperative's identity on the cooperative. Using the case of TSB as an illustration, this chapter explores the ways in which identity emergence in volunteer-based hybrid organizations may present a particular challenge in navigating institutional change, since the internal struggle to define the emergent identity may be complicated by external attempts to impose and control the form this identity takes. The chapter also discusses the role of identity, community and legitimacy. 'Identity emergence', here, refers to the process by which an organizational identity is created from *inception*. While an essential dimension of our understanding of identity formation and maintenance, this process of identity emergence has to date not received a lot of scholarly attention (Gioia et al. 2010: 1–2; Gioia et al. 2013). Yet, gaining insights into how an organization 'comes into being', that is, forges a previously non-existing identity, is crucial to better understanding processes within organizations, organizational performance and organizational identity change processes. Arguably, identity emergence processes are even more difficult for hybrid organizations such as cooperatives to manage because of their inherent complex nature with heterogeneous stakeholders and expectations. The research setting of being embedded in TSB and following, up close, how the cooperative's board members and nonboard members, in interaction with external parties, build the cooperative's identity, thus gives deep and relevant insights into the issue. As such, the chapter highlights not only the difficulties of 'normal' people and volunteers having to manage the process of determining the cooperative's organizational identity but also the interplay with other actors in the wider field of action who attempt to direct the emergent identity in a direction of their own benefit.

The chapter is structured as follows: the next section provides more insight into the research context, with an explanation of the particular institutional setting of the Dutch health-care system, as well as the recent changes within it. A historical overview of the island of Texel and the role of cooperatives within it is also provided. After this, follows an exploration of the way in which the identity of the cooperative was created and has developed over time, highlighting important events and changes. Here, the chapter traces the identity emergence and documents how ambiguity

turned into clarity, both for internal members of the cooperative and for external actors. The chapter concludes with a discussion of how the TSB cooperative, and particularly the TSB board, navigated the ambiguity experienced through practices, communication and governance.

### **12.1.1 Cooperatives and Organizational Identity Struggles in Light of Institutional Complexity**

Using a 26-month ethnographic study<sup>2</sup> carried out between November 2015 and January 2018 as an illustration, this chapter sets out to explore the process through which a hybrid identity can be challenged by both internal and external pressures and ambiguity. In doing so, we draw in particular on the hybrid identity literature (Battilana and Lee 2014; Smith and Besharov 2017), with specific attention to governance issues, to gain better insights into the way in which meaning and roles are created and challenged. The chapter thus explores how TSB's board has opted to employ a cooperative organizational form rather than some other organizational form to change its social context, how TSB's board and the members go about doing this and how TSB's governance in turn has come to challenge institutional practices.

### **12.1.2 Research Context: Institutional Change in the Dutch Health-Care System**

The Dutch health-care system is built on four basic health-care acts: (1) the Health Insurance Act (*Zorgverzekeringswet*), (2) the Long-Term Care Act (*Wet langdurige zorg*), (3) the Social Support Act (*Wet maatschappeli-*

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<sup>2</sup>Specifically, from November 2015 until January 2017, one of the authors spent two to three days a week on the island and participated in and observed activities and meetings organized by the cooperative, as well as events, meetings or activities relevant to the wider context (e.g., joining coffee mornings in the care home for the elderly, playing rummy or observing an art class for seniors with dementia). Additional data sources include interviews, informal conversations, focus groups, survey data, newspaper articles, newsletters, information from websites, email exchanges and minutes from board meetings. Between January 2017 and January 2018, both authors have had continued email exchanges and made additional visits to the island, though not as intensively as during the study period noted.

*jke ondersteuning*) and (4) the Youth Act (*Jeugdwet*) (Ministry of Health, Welfare and Sport 2016). In 2015, considerable changes were made to the latter three, the Long-Term Care Act, the Social Support Act and the Youth Act. Whereas the central government administers the Long-Term Care Act, local authorities are now responsible for implementation of the Social Support Act and the Youth Act. According to the central government, there are several motivations for these changes (Ministry of Health, Welfare and Sport 2016). First, the changes have been argued to offer opportunities “to improve the quality of the care provided, promote an integrated approach, and keep healthcare available and affordable in times of an ageing population and in which many people suffer from chronic illnesses”. In addition, the policy document suggests that “local authorities are closer to the people and are therefore able to provide effective, high-quality care”.

With this regulatory change, local authorities have now become fully responsible for providing general health-care services for people in need of support, individual support for people with disabilities and sheltered accommodation and support to other individuals in need. In other words, local authorities determine who is entitled to receive what care and how it is organized. Examples of services provided include coffee mornings at local community centers, ‘meals on wheels’ services, volunteering, household support, social support and financial support for individuals with chronic illnesses or conditions.

### 12.1.3 Texel and Cooperatives

In order to gain insights from the case of TSB, it is important to better understand the role and position of cooperatives in the Netherlands as a whole, as well as to provide some history of the island of Texel itself. Living on an island is often cited as a reason for a collective mindset: as islanders, you need to stick together to survive. The cooperative mindset that was and is present on Texel can be traced back to the Middle Ages, when there were several villages and numerous communities spread across the island. At yearly meetings in so-called *Buuretons* (*local community centers*), members collectively discussed and decided on civil society

matters such as road maintenance and dike restorations (Pronk 2015: 28). In 1896, for instance, they discussed how decreasing demand had slowly diminished the maintenance of water wells in Oudeschild, resulting in poor water quality and disappearing water sources. Relying solely on these wells, the people of Oudeschild established a plan to recover their water supply. Apart from deepening a local ditch, 175 families agreed to pay a yearly amount of 180.00 Dutch Guilder to maintain the water supply (Pronk 2015: 54). Another example can be found in the development of the ferry service. When islanders, 'Texelaars', wanted to travel to the mainland, they had to use a ferry managed by a resident of Alkmaar, but this service was considered to be too expensive and infrequent to attract tourists. As a result, one group of islanders began to promote a Texel boat service, though the idea lacked the support of other islanders. A few years later, in 1907, dissatisfaction increased considerably as people began to realize that Texel did not receive any money from the ferry service. A new campaign was started, emphasizing that *all* islanders deserved their own ferry service. The same year, the first trip was realized by a rented boat by *Texels Eigen Stoomboten Onderneming* ('Texel's Own Steamboat Enterprise' or TESO) (Pronk 2015: 163). On top of this, in order to buy their own ship, Texelaars were given the opportunity to buy TESO shares for 5 or 25 Dutch Guilder (in today's currency equivalent to about €58 and €290, respectively). The campaign raised enough capital to purchase a new ship the next year. Now, at the time of writing, there are numerous cooperatives on the Texel, focusing on all types of markets, the biggest one being TESO. Others include *CIV-Texel*, an 80-year-old retail cooperative for fisherman that focuses on the purchasing of equipment. Another is the *Texel Loyal* cooperative that operates the *TexelPoints* loyalty program where people can collect points by purchasing goods or staying at hotels on Texel. These points can in turn be used to pay for other products or activities on the island. In the energy market, *TexelEnergy* works to increase the generation of green energy and reduce the total amount of energy used (though the cooperative has since liquidated due to poor management). In the food market, the *Texelse Kost* cooperative aims to provide high-quality foods, produced and sold locally. And of course, there is TSB, the health and housing cooperative, which we discuss in more detail later in this chapter.

It is worth noting, when discussing the cooperatives, that while, historically, a cooperative mindset and practice has long existed on the island of Texel, not all of the cooperatives outlined above subscribe to the specific values often associated with cooperatives, such as shared ownership, democratic decision-making, self-sufficiency and equality. That is, while a number of these traits can be seen at present in the cooperatives on the island, there is also a more pragmatic reason for adopting the cooperative organizational form, which speaks to the flexibility it allows an emergent hybrid organization in terms of how a cooperative classifies itself. In the Netherlands at least, the cooperative form allows organizations the option of making money, in contrast to an organizational form such as a foundation (cf. Battilana et al. 2012). However, this pragmatic approach to using the cooperative form also impacts the way in which emergent cooperatives in the Netherlands need to navigate their identity emergence and can raise particular challenges concerning their governance. Turning to the illustrative case of TSB, we can distinguish four phases in which the cooperative had to deal with different identity struggles, internally and externally driven.

## 12.2 Identity Struggles and Institutional Complexity

The four phases in TSB's identity emergence process are based on key events that have a significant effect on the decision-making process of the governance of TSB's board in regard to setting TSB's identity and strategy. As such, we can distinguish (1) an emergence phase, (2) a founding phase, (3) the autumn campaigns and (4) a new beginning. These phases will be further elaborated upon below. The key events in the formation of TSB's identity as well as the *internal ambiguity within the board* and the *external pressures* that the board members face will be described.

### 12.2.1 Phase 1: The Emergence of an Idea (2012–2013)

The roots of the idea to set up a health cooperative can be traced back to another initiative on the island: *TexelEnergy*. Also founded as a

cooperative, this initiative focused on sustainable energy for the island. In 2005, a small group of islanders began to research the possibilities for the island to become self-sufficient in terms of energy generation and use. Building on a strong sense of autonomy and the desire to be self-sufficient and independent from the mainland, and on an island identity, the group officially launched sustainable energy cooperative TexelEnergy in 2007. The experience gained from TexelEnergy became more salient when, at a national level, big changes in health-care services were announced in 2010–2012. Founding president of TSB, Richard, recalls the event:

There were four of us, I believe... the president of IslandEnergy at the time, myself and two others. We got talking about all of the changes happening in the health-care sector and I think we even tried to calculate the costs. Given the number of inhabitants on the island we concluded that the expenses in terms of care per capita added up to about 70 million EUR, over which care users have no control whatsoever. So, that 70 million, right, is quite a small amount. But even for that small amount we have no influence on how to spend it, taking into account the interests of the islanders who actually use that care.

At this point in the development of TSB, we are mainly talking about a small group of people worried about societal trends in the health-care sector and who felt the need to do something about it. Accordingly, while these individuals found themselves drawn to each other as like-minded people, they had yet to form a shared identity. They initially considered setting up a health insurance company themselves but “quickly moved on from that idea” as implementing it was perceived to be too complex. What did happen, however, as a result of this small group orienting themselves on the possibilities available to them, was that they began to organize more actively and started to engage in networking activities with other actors in the field of health care. The development of TSB thus moved into a new phase: founding the cooperative. In short, based on experience from another cooperative on the island, a small group of individuals began to look at the health-care sector on their island. They shared a sense of urgency and, without a clearly defined identity or goal, started to organize.

## 12.2.2 Phase 2: Founding the Cooperative (Autumn 2013)

Toward the end of 2013, Richard had expanded the initial start-up group to 13 individuals, who were either care users or care providers. The group wanted to get “a better grasp of the health-care landscape” and, in order to do that, wanted to know “where they had to go and what they had to do to get there”. The group of 13 organized three brainstorming sessions in which they discussed questions such as the following: *If this is the direction we are taking, how do we do that? What is going to be our profile/position? Where do we start? And what vehicle do we need to build?* These were clearly the first steps toward constructing a shared identity on which to build the organization.

In this phase, the group founded *IslandCare*, an initiative that was later to become TSB. At that point in time, *IslandCare*'s aim was to manage the interests of its members with respect to care and well-being. Examples of the cooperative's goals were for islanders: to be able to live at home independently for as long as possible and to be able to influence the kind of care they received. Other ideas that surfaced were the building of a hospital on the island and bringing an X-ray machine to the island, both of which would mean that islanders would no longer have to go to the mainland for every small injury sustained or for routine appointments with specialists. In January 2014, TSB was legally founded as a cooperative under the name of *IslandCare* (which, as discussed later in this chapter, was changed at the Annual General Meeting (AGM) later that same year to prevent confusion with another initiative with the same name). The choice of this particular organizational form was based primarily on the fact that a cooperative would allow for the development of entrepreneurial activities further down the line, such as offering fee-based care services. At the time the cooperative was founded, the founding group remained ambiguous as to its identity and scope, leaving the option to engage in commercial endeavors open. Other reasons for choosing the cooperative organizational form were tradition and familiarity: cooperatives flourish on the island, including an energy cooperative, a ferry and multiple agricultural cooperatives (Pronk 2015).



Of the 13 initiators, 5 ended up on the board of TSB: Richard, the visionary of the group, with considerable experience in politics and governing; Arnold, a physiotherapist, the youngest and only 'real islander' of the group; Tracy, with a background in education and considerable experience in governing issues and who had served on a variety of boards, as well as developed a strong network on the island; George, a retiree who had worked for the military; and Jonas, whose background remains unclear as he left the board quite soon afterwards. The remaining eight initiators came from a variety of backgrounds, ranging from social services, a director from the local home for the elderly, the TexelEnergy cooperative, real estate and the local pharmacist.

On 3 March 2014, IslandCare invited in 65 people from their own personal networks to share their vision of the cooperative. This group consisted of influential people on the island, such as gatekeepers, prominent actors or individuals with a traditional island surname (and therefore believed to be 'real islanders'). The vision presented to the group was the following ([www.tsb.nl](http://www.tsb.nl)):

At some point in time each of us is a user of care. For ourselves or for our best friend. The government is asking us to participate more and more in caring for one another. Fewer expectations on the government, more self-sufficiency. That is what we want. But that also means that we want to take a serious part in the question of how care is to be organized. We want to be involved in the choices that are being made between care providers and health insurance companies, and between care providers, health insurance companies and the municipality. We believe that, within this institutional triangle, users of care should be able to participate meaningfully.

TSB sees this meeting as their founding moment when the organization acted as TSB for the first time.

In order to address some of the questions raised by the 13 initiators, and to know what other options were available to TSB apart from setting up a health insurance company, the newly formed board decided to "talk to all of the important players in the care sector to get an idea of how [they] could gain access to that industry". Through this exercise, the group connected with one of the big health insurance companies (*InCo*).

InCo was also interested in the wider changes in the health-care sector and was working on its own solution to bring care closer to the people who use it. TSB president Richard explains:

So that's where we developed the idea to set up a collective insurance policy with InCo. So the idea wasn't just to give our clients a discount, but to be able to influence the quality of the insurance policy and the quality of care on the island in collaboration with InCo.

Two months after TSB's foundation meeting, they signed an Agreement of Understanding with InCo and its sister health insurance company CareCo, in which the parties agree to work together to develop an island-specific health insurance policy for members. In terms of governance, and attracting and retaining members, the resulting Texel Insurance Policy enables (new) TSB members to benefit from an island-specific insurance policy. The member fee for TSB can be claimed back through InCo, however, and as such does not allow TSB to build up any capital for future projects.

At this stage, both CareCo and InCo are very explicit about their contribution to the development of TSB and emphasize their supporting roles during these early days of the cooperative. However, whereas InCo portrays itself more as having a mediator role, CareCo emphasized its role as facilitator. Both parties emphasized that they felt they played a strong role in helping TSB find its identity, but how they did not want to pull too hard, and both came up with multiple examples of how they provided TSB with strategic advice. As the team leader for the innovation team states, for example: "I don't want to say we provided them with their mission statement, but we definitely facilitated the process".

Another external actor, the city council member for health care, also emphasized her role in TSB's early development, clearly stating that she was involved from the beginning and provided TSB with numerous examples of projects to possibly take on. Her view of TSB's role was that the cooperative should serve as a signaling function in that it would meet regularly with the local government and provide updates on signals received from the citizens of the island. She felt, however, that TSB had not followed through on this "hope" of becoming an antenna of sorts for the local authority.

In this second phase, the initiators began to make their ideas more concrete by linking broader abstract goals of better care on the island to specific objects, such as a hospital, an X-ray machine or a health insurance policy. TSB also became a legal entity, and the organization itself was founded (though under a different name), materializing their goals into the actual cooperative. Lastly, the cooperative sets its own goals of inserting itself into networks and interactions with existing actors in the health-care sector, in order to actually be able to influence decision-making and developments. Therefore, at the end of phase two, the organization had become a legal entity, the initiators of the TSB cooperative had appointed the first board members and had decided on their primary objectives and their strategy for the first campaigns of the cooperative.

### **12.2.3 Phase 3: The Autumn Campaigns (2014–2016)**

Now that the cooperative had been founded, the focus quickly turned to how to generate money and engage more members. On the one hand, the cooperative applied for funds from foundations, and on the other, it offered so-called founders certificates for sale (at €100 each). Individuals could purchase a certificate and thereby become a founder of the initiative. Buying a certificate would at the same time cover membership in the cooperative for 2014 and 2015. In total, this generated between €30,000 and €36,000 for the cooperative. One of the things that quickly emerged was that for IslandCare (later to be named TSB) to become a credible player in the field alongside the already-existing care providers, health insurance companies and the relatively new municipality, it would have to come to represent for a large number of people through membership. Thus, IslandCare decided to invest in a big autumn campaign to raise awareness among the islanders and to attract members. Due to the above-mentioned Agreement of Understanding with health insurance companies Inco and CareCo, in which the TSB board and the two insurance companies agreed to work together to develop an island-specific health insurance policy for TSB members, it made further sense to invest in an autumn campaign because, nationally, that is the time when health insurance companies tend to run their campaigns to keep old and attract new customers. On 31 October 2014, the first AGM was held, which was

attended by 65 of the 109 members in total at that time. It was at this meeting that the name change from IslandCare to TSB was approved (to prevent confusion with another initiative also named IslandCare). For this first AGM, the first annual report was published as well. This report outlined ten objectives for the year 2014–2015. These objectives included the concrete and actionable goals mentioned earlier in this chapter. By the end of the first autumn campaign, TSB had signed up 600 members. In an attempt to realize efficiencies and become more professional, during this time, TSB also hired two individuals whose task it was to engage with the municipality, care providers and health insurance companies and to serve as the representatives of the cooperative. Unfortunately, these employees did not produce the outcomes that the TSB board had envisioned and the board decided to remain volunteer-led. In conclusion, after the first autumn campaign, the island-specific policy became increasingly more salient, strongly connecting TSB to InCo. The name change was also important as TSB attempted to differentiate itself from the many other similarly sounding foundations, volunteer organizations and cooperatives on the island.

Having managed to attract a good number of new members in the first campaign, TSB entered 2015 feeling successful. However, TSB's board also realized that it needed to work on the organization's goals and identity if TSB was to become a recognized player in the health-care industry. At this point, Jonas and George had stepped down from the board, and four new people had joined, resulting in seven board members. The four additions were Joseph, Michelle, Irene and Tamara. Joseph, a retired veterinarian who earlier developed a tool to monitor the well-being of cattle and thereby prevent illness, joined TSB to look at developing a similar tool for the human population of Texel. In the process, he became inspired by the 'Positive Health' movement, a movement that focuses on the broader definition of health by looking at the physical, emotional and social aspects of life ([www.iph.nl](http://www.iph.nl)). Michelle is a retired teacher and is very active with different clubs on the island. Irene is another 'real islander' and has experience in coordinating a local foundation on the island. Lastly, having had her own (negative) experiences of health-care services on Texel, Tamara joined the board out of a personal drive to be part of a change. TSB has consciously chosen two 'real islanders', that is, native

islanders, for the board in order to raise visibility and recognition within the island community.

Working toward the second autumn campaign, TSB regularly met with two members from the 'innovation team' from CareCo, the health insurance company. This innovation team has the responsibility of monitoring and identifying new trends in health care to possibly develop them into best practices that can be translated to and used in other regions where CareCo operates. TSB also maintains regular contact with the municipality. The city council member cited above is happy with the citizen-led initiative but is unsure of its exact contribution. In her eyes, TSB should have taken the decision to actually offer services, whereas TSB firmly decided to remain focused on liaising between practices rather than providing services itself. Regarding its members, the TSB board seems to be most concerned about administrative tasks like distributing membership cards, updating the membership database and ensuring that members' claims (for receiving membership fees back) go through.

When comparing the internal views of the board members on TSB's identity, it becomes clear that the individual board members all have diverse views. For instance, with regard to the long-term vision for TSB, Joseph and Arnold both agree TSB should become superfluous in the near future. Richard, on the other hand, foresees a continued role for the organization. Also, whereas Richard and Tracy emphasize the importance of building networks and partnerships, Arnold describes TSB as a "defender of Texel's health-care system against all of the external parties", and Joseph and Tamara underline TSB's potential role in education and providing information. Overlap in the perspectives can be found as well: Richard, Tracy, Irene, Hannah and Michelle all discuss the importance of keeping and adding health-care-related facilities to the island. Also, Arnold, Richard and George agree that TSB exists in order to serve the interests of their members. Besides these partially overlapping elements, several board members also have their own focus points. Joseph is the visionary of the group and talks mostly about a systemic change of the health-care sector toward a more holistic approach. Arnold highlights the importance of the voice of the Texelaars that needs to be heard.

The board members themselves recognize these differences and speak of a "lack of shared philosophy" or state that "they think on different

conceptual levels” or that “everyone is just too busy to really get involved and committed”. When speaking about each other individually, the board members acknowledge that some elements can be attributed to specific members. This is specifically true of Richard and Joseph. In the case of Richard, people agree that he pulls the cart and is the most valuable member, while Joseph is perceived as the visionary who focuses solely on TSB’s parallel track, Positive Health.

In the summer of 2015, TSB became part of an experiment on the island aimed at tackling changes in the health-care sector more structurally, and involving the municipality, care providers and health insurance companies. This was the first time that TSB was actively invited to take part in this sector-wide initiative. In October 2015, the second autumn campaign began, again aligning TSB with InCo. Although TSB strongly maintains a neutral position in the health-care sector, it is also aware of the difficulty that both the general public and other organizations in the sector have understanding what the cooperative is about. The TSB board therefore spends a lot of time talking to the members and other islanders, engaging with the media and developing its website. The board members also try to organize information events to explain their focus and raise awareness. TSB president Richard had been hoping for another big increase in membership (double the existing number) by the end of the campaign. In the end, TSB did indeed gain members but not as many as Richard had hoped for: about 100 new members. In this phase, TSB continues to develop their relationship with InCo and CareCo, and the board members still struggle with the formation of a clear identity. This is especially apparent in the second annual report for the period 2015–2016, in which the objectives stated differ quite substantially from the previous, more concrete goals, with new objectives such as “enforcing resilience and self-reliance” and “increasing awareness of Positive Health”.

#### **12.2.4 Phase 4: A New Identity (2016–2017)**

At the beginning of 2016, TSB’s board was still working hard on positioning itself. In this phase, CareCo decides to take a step back because it does not believe TSB can have any impact without the clear support of

the local council. In a sense, external actors seemed to have lost their grip on where TSB is going and distanced themselves. As a result, the biggest challenges are internal, within the cooperative, and twofold: the first being to get the members more involved in the cooperative. Due to the average age of the cooperative's members, which is well over 80, it is difficult to get members actively engaged in TSB activities. The members often wonder "what they have to offer the cooperative". The second challenge is that it is hard to get people to think about the care they might need when they get older. There seems to be a lot of resistance to the topic of aging and mortality. Within the cooperative, the board members struggle with questions like the following: *What exactly are the interests of the users of care? And how do we make sure that what we do is recognized and supported?* Continuity of the governance of TSB is another issue the cooperative grapples with, as two prominent board members announce they will step down in 2016 and 2017, respectively. One of them is Tracy, the secretary and active board member with a strong network on the island and previous experience in governance. The other board member leaving is the sitting president, Richard. From the beginning, Richard has been the strongest voice and most active board member. None of the remaining board members seem willing to succeed Richard, and a period of searching for new board members, including a new president, has begun. Consequently, the cooperative continues its alignment with the health insurance companies with the very real risk that they will either be seen as working together with them or with the risk of not being able to continue without their help. Furthermore, whether an X-ray machine will be installed on the island remains uncertain. In October 2015, a new board member, Hannah, enters the group. Hannah works in the health-care sector and, as such, has connections and experience in the field.

Around the same time, TSB's board participated in an identity workshop. Richard in particular had emphasized the need for external support in this identity-setting phase. In the minutes from their own board meeting, the board concludes that it has to be aware of the progress that has already been made: the local authority is listening and organized events are well-visited. In addition, the cooperative has run focus groups and has sent out a survey to take stock of its impact and future directions. Both

have proven great instruments for gaining visibility. There also seems to be more alignment in the perspectives of the board members on TSB's identity. For instance, Richard, Joseph, Irene and Michelle all refer to self-reliance as one of TSB's key focus areas. Also, both Tamara and Michelle mention that Texel's younger demographic could be a potential focus area for TSB. And, most importantly, with Richard joining Joseph in his attention to the Positive Health movement, the overall direction of the TSB cooperative seems to have taken a turn. This can be seen in the third annual report, for the period 2016–2017 as well: where in previous editions the board specifically emphasized particular objectives it pledged to achieve, in this third annual report, such concrete objectives are replaced by a general focus on Positive Health.

With Richard leaving soon, however, the remaining board members have tried to find new members and a new president by asking around in their own networks. But this has not resulted in a new president. The board members provided arguments such as “he didn't know what TSB was” or “they're too busy”. Being a volunteer-based cooperative is at times also challenging, since everyone is trying to balance their personal life with their responsibilities on the board. Joseph is quite clear in emphasizing that he will only continue if the new president supports Positive Health. The board members realize that if they want the cooperative to continue, they may have to fill the function of president with someone from the existing board. When the researcher asked the board members, during one of the meetings just before Richard's departure, whether ending the cooperative was an option, there seemed to be agreement on the willingness to continue. At one of the last board meetings before the AGM, Richard emphasizes the need to appoint an interim president before the AGM. Everybody is quite hesitant. Joseph says he is willing to do it if nobody else wants to but only if the position is temporary. But he would also be happy if someone else took over. Everybody else says declines, however, and it is decided: Joseph is the new interim president.

During this fourth phase, there seems to be more alignment with regard to TSB's identity, but the board still struggles with issues such as member engagement, continuity of the board itself and, especially, dealing with the departure of its most prominent member.



## 12.3 Discussion and Conclusion: Moving Forward

In each of the four phases described earlier in this chapter, TSB encountered ambiguous and uncertain circumstances, forcing them as a group and as individuals to engage in sense-making processes concerning their identity. Once a clear focus was decided upon, after the identity workshop, the board members seem to have gained legitimacy in the field as they have received multiple invitations to collaborate with different parties. They have, for example, been approached by a country-wide initiative called 'Better Together', which attempts to address health-care issues at the national level. They have also been asked by TexelFund, an island-specific foundation with considerable resources, to develop a plan to invest in island-wide health-care projects.

Zooming out from TSB, a better understanding of identity emergence, or the way in which organizational identity is created from inception (Gioia et al. 2010), has clear implications for gaining deeper insights into how identity processes play out in organizational contexts and, by extension, may even impact organizational performance. From an organizational standpoint, the inception phase is fraught with ambiguity and complexity, and often generates a precarious situation where a multitude of different actors, both internal and external to the organization, attempt to influence the direction of identity formation (Gioia et al. 2013). While the interplay between internal pressures and external expectations may be similar to identity change processes, the identity emergence process is at the same time arguably more fundamental in its ambiguity, as a previously non-existing identity needs to be created without clear benchmarks.

In the context of hybrid organization, the question of identity emergence may be even more difficult to manage. The complexity of combining multiple logics as well as answering to and interacting with a very heterogeneous group of stakeholders is likely to have an impact on the creation of the emergent organizational identity. As the above account of the development over time of TSB's emergent identity shows, the intention to become a citizen-led health-care cooperative on Texel to improve the health-care experience of islanders was not easily sedimented into a

clear organizational identity. On the contrary, a number of issues prohibited the cooperative from setting their identity clearly, issues that can be traced to both internal tensions and external pressures. At the same time, the cooperative's board engaged in a number of actions to facilitate the process of 'becoming TSB', which, after a long period of uncertainty, seems to be paying off.

A key reason to zoom in on the actions of the cooperative's board is that it is the board who has set the strategy for the cooperative. Although the essence of cooperatives does imply an active participation of members who democratically and equally can and should bear the responsibility for the entire enterprise, in the case of TSB there seems to be a misalignment between the board's expectations of members' involvement and the cooperative members' actual involvement. Although activating the participation of volunteers is not something that is entirely new (Yanay and Yanay 2008), in the context of cooperative thinking, this may seem a bit more surprising. In the case of TSB, however, the way the cooperative handled and presented its identity to both its members and the outside world seems to speak more to a pragmatic version of a cooperative, rather than one driven by an ideology. For example, while TSB members do pay a membership fee, they are able to claim this back through a partnership with InCo, the health insurance company. As such, the TSB cooperative does not build capital or earn money to be redistributed among its members. In essence, this means that members can get benefits 'for free' with no real expectation that they should contribute in other ways. To a certain extent, this strategy of waiving the membership fee was developed as a way of attracting as many islanders as possible and to build legitimacy for the cooperative in the eyes of other institutional actors such as the local council, the health insurance companies and even national policy-makers. It could be argued, however, that it has backfired slightly, as the support of the members is based less on the ideology and is instead more transactional.

Other ways in which the board has tried to steer TSB's identity emergence have been through regular interaction with and participation in external parties in the health-care landscape, to make their vision clear and to gain visibility. Initially, this was difficult as the absence of a clearly communicated identity confused many, opening the way for

others to co-opt the process. For example, both the local council and the health insurance companies clearly tried to define and use TSB for their own ends. One problem with this strategy seems to have been the disparate views within the board itself and the practical choice to spread the participation of board members across different events and steering groups. This means that the more outspoken members of the board gained more visibility, without necessarily speaking 'on behalf of' the cooperative. Instead, these individuals advocated their own visions as part of TSB.

The decision to actively develop TSB's identity internally and align the vision of the cooperative was crucial in the identity emergence process. This exercise has resulted in a clearly articulated and widely shared understanding of the organizational identity, which in turn has closed the window of opportunity for external actors to force the cooperative in an alternative direction. Also, with respect to their members, this more narrowly defined identity has provided clarity and structure. Members are more aware of what they can expect from the cooperative and, ultimately, what the cooperative may expect from them.

To conclude, the case of TSB provides an interesting illustration of how hybrid organizations can struggle with their identity emergence. As a volunteer-based cooperative, and particularly unhappy citizens with an idea to contribute to the greater good of society, TSB at times seemed to have bitten off more than it could chew. However, having climbed a steep learning curve and made some important decisions, the board has enabled TSB to harness the institutional ambiguity in which it initially found itself and ultimately settle their organizational identity in a narrower way. The broad vision with which they started provided the group with momentum to initiate change, but, in the end, defining the organizational identity in a more concrete and limited manner strengthened TSB's position on the island. External actors, too, seem more attuned to the aspirations of the cooperative, and recent events show that TSB is gaining national visibility, where they have been approached to collaborate on a national initiative to improve the Dutch health-care landscape. From a legal standpoint, setting up a cooperative may seem the easy option in the Netherlands, but the process of 'becoming' one has not been without its challenges.

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# 13

## Hybrid Challenges in Times of Changing Institutional Conditions: The Rise and Fall of *The Natural Step* as a Multivocal Bridge Builder

Susanna Alexius and Staffan Furusten

### 13.1 One of Its Kind That Became Ordinary

This story begins in the late 1980s with a Swedish academic entrepreneur who founded an organization with the purpose of spreading the mission of sustainability. The organization was initially successful at bridging the areas of science, politics and business, but staying in this position of bridge builder was not without challenges. The entrepreneur and his coworkers struggled to manage the organization to maintain its position and legitimacy as a bridge builder. But due to an increasing awareness in society of the importance of making a turn toward sustainability and the emergence of other actors in all three spheres (science, activism and consulting), it became increasingly difficult for *The Natural Step* (TNS) to sustain its hybrid identity.

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The questions addressed in this chapter are the following: Why was the hybrid identity of TNS challenged and why did TNS's management respond with actions that led to de-hybridization? The chapter contributes to discussions on management in hybrid organizations by highlighting when and why hybrids face particular challenges and how managers struggle to deal with them. The chapter ends with some conclusions regarding a number of dilemmas faced by hybrid managements in cultivating and maintaining hybridity over longer periods of time.

The main data collection for the study began in the spring of 2013. A combination of methodological techniques was used, including extensive study of the available internal and external documentation of TNS's history, such as internal texts (various reports and website data and documentation published by the founder throughout the years: Robèrt 1992, 1995, 2002, 2017) as well as earlier, external research that had mentioned TNS (e.g. Boström 2001). This material was complemented by 12 approximately 90-minute long semi-structured interviews with all but one (whom we were unable to reach) of the active TNS coworkers and decision-makers at the time of the interview study (2013). About half of the interviewees had been with TNS since the early days, around 1990. We also observed two internal staff meetings and a two-day sustainability course with clients given by TNS at its Stockholm office. The data was coded in an abductive mode (Alvesson and Sköldberg 1994; Rehn 2006) using a general topic guide that focused on gaining a better understanding of TNS's role as a hybrid organization, with particular concentration on its potential role in path generation and the establishment of the Swedish sustainability field over time.

## 13.2 The Case of *The Natural Step*

### 13.2.1 Forming of a Hybrid Organization in the Late 1980s

Although various activists, policy-makers, scientists and people from industry had been engaged in path-generating activities toward increased awareness of environmentalism in society since the 1960s (Bothello and

Salles-Djelic 2018), their efforts intensified in the 1980s. At that time in Sweden, a range of actors addressed the need for more serious consideration of environmental issues (Boström 2001). The public debate of that time, however, was fragmented and conflict ridden. There was confusion about what was meant by a “sustainable society” and how it could possibly be realized, as well as political polarization between left-leaning activists claiming to be “world saviors” but who proved unable to stand united and right-leaning corporations who were caught off-guard and responded by defending their traditional “money makers” position (Windell 2006). In this sensitive political climate, politicians were reluctant to take action, afraid of becoming trapped between the two opposing camps (Boström 2001).

Such was the landscape when Karl-Henrik Robèrt, a Swedish physician and cancer scientist, took the initiative, in August 1988, to write a scientific manifesto on sustainability (Robèrt 2002). Robèrt was ethically motivated to “mission” the need to cooperate to sustain life, based on his experience of how families, care providers and the community came together to attentively and efficiently help children with cancer. Inspired by the Brundtland Report (1987) and the polarized debate on the state of the environment in the world at the time, Robèrt brought his personal experiences from bridging actors and blending their expertise for the cause of treating sick children to the cause of sustainability (Interview 1). To do so, he initiated multidisciplinary collaborations with the ethical objective of writing a joint scientific consensus-based manifesto on fundamental conditions needed for a sustainable life.

Robèrt first presented his idea to close colleagues in oncology science and later introduced it to a group of Swedish experts outside his own discipline as well as a number of peers in other scientific disciplines. His idea was to mail the resulting manifesto to all Swedish households once a scientific cross-disciplinary consensus had been established. Work began and draft versions of the manifesto were actively discussed in the network of experts and scientists. As Robèrt recalls in his autobiographical book, he took the contributing scientists’ feedback into account without delving too deeply into the details (Robèrt 2002 p. 28):

I sent out the manuscript, took heed of comments, wrote additional drafts, and expanded the circle of scientists to include physicists, medical doctors,



chemists, biologists, and so on. As we proceeded with the arduous work of correcting, revising, and proofreading the manuscript, more and more participants were drawn in—people from the major educational associations, a growing number of scientists, and researchers and teachers from schools and universities.

In December 1988, the scientifically based, cross-disciplinary collaboration did manifest in a final framework describing “fundamental conditions for life”. As evidence of the process, Robèrt (2002) notes that 21 drafts were circulated and input was received from over 50 scientists—mainly ecologists, chemists, physicists and medical doctors. The ethical motivation throughout the process had been to bring to the fore the fundamental issues where consensus between scientific disciplines and between different interest groups in society could be found and to do so in a “neutral way that doesn’t push your personal spiritual beliefs onto others” (Robèrt 2002, p. 16).

The resulting manifesto was named *TNS Framework* and was organized according to four system conditions: (1) change the energy systems, (2) phase out the use of chemicals and metals that cannot be broken down, (3) manage and support ecosystems—fresh water, forests, meadows and fisheries—in a sustainable life-supporting manner and (4) work to heal the battered and broken cultures around the world (Robèrt 2002). The four principles were used to order and systematize the detailed yet fragmented knowledge of different experts and gather all the relevant knowledge into a single comprehensive framework (Interview 1).

Robèrt (2002) describes how the strategy used was to combine a cross-disciplinary scientific approach with a “missionary” approach. As noted by Boström (2001) in his analysis of the different actors and sub-paths of the Swedish environmental movement at the time, several actors referred to science in their ambitions to generate a path to sustainability but TNS proved to be outstanding in its reach. As Boström concludes (Boström 2001 p. 76):

A common method of influence for environmental organizations is to pursue specific issues/campaigns. This may be the decommissioning of nuclear power stations or the use of chlorine or to mission for sustainable forestry. TNS pursues actors, rather than specific issues. It all comes down to

conveying knowledge and meaning to the environmental work of different actors, and to coordinating and uniting actors.

In an ambition to reach out *beyond* the scientific communities, Robèrt vividly describes (in books and retrospective interviews) how he approached a number of Swedish celebrities—musicians, media managers, politicians and eventually also the King of Sweden, Carl XVI Gustaf, to spread the word about the scientific framework about to be finalized and to ask them to join and support the movement (Interview 1, Robèrt 2002, Boström 2001). These missionary ambitions were widely welcomed, and the notion of TNS soon expanded beyond Robèrt as an individual and TNS's founder and beyond the manifesto framework document itself.

The consensus approach was important in attracting stakeholders, as was the strive for dialogue and bridging of “unnecessary polarity”. TNS's internal documents and brochures from the time described how it wanted to be a partner rather than an opponent and to guide rather than confront actors. This approach, together with the holistic ethical view, made it easier to create a sense of consensus on fundamental issues, which in turn enabled further communication and translation. As Boström puts it (Boström 2001, pp. 87–88):

If everyone—politicians, public servants, CEOs, professionals and consumers—all depart from the same framework, this creates conditions for people with different competencies to have a more efficient dialogue with one another.

### 13.2.2 Spreading the Word

In a short period of time, TNS had attracted attention as a “node” to which different actors both could and wanted to connect. More and more people and organizations proved willing to let their different paths cross at the new node for sustainable cooperation. For example, in September 1988, while the network of scientists had still not ratified the scientific manifesto, Robèrt pitched the idea of the framework to Sweden's public television broadcaster (SVT). His idea was to celebrate the launch of the

manifesto with a national TV broadcast including famous music artists. The head of SVT Channel 1 first laughed at the idea (Interview 1) but eventually agreed, under the condition that Robèrt could find the funding for his endeavor. He then approached the Ministry of Education, asking if they would be interested in a booklet and audiocassette of the scientifically agreed-upon knowledge to be mailed free of charge to all the schools. They were, again provided that Robèrt was able to find the necessary funding. He also went to the King of Sweden's personal assistant with the same offer noting the involvement of "the government and Channel 1 and all these artists and scientists and I..." and, to his surprise, he received an invitation to meet with the King and Queen at the royal palace to present the project (Interview 1).

All in all, driven by a strong ethical, "world savior" ambition (Windell 2006), TNS managed to reach out to representatives from a wide range of organizations, to either engage them in a network or possibly enroll them as funders. In the case of the latter, a diverse set of organizations were approached, including private corporations like IKEA and the state-owned companies of Nordbanken (since privatized and now Nordea Bank) and SJ (Swedish Railways), as well as civil society organizations such as the Swedish Cancer Foundation, the Lions Club, the Church of Sweden, as well as other hybrid organizations such as the mutually owned insurance company Folksam and cooperatively owned retailer KF (Sweden's then-largest supermarket chain), along with three labor unions—Metall, Fabriks and TCO (Interview 1). The board chairs of these organizations were invited to join an ad hoc sponsoring group and to sit on the prospective board of the new organization envisaged to take on the role of coordinating the missionary project.

While the response was supportive and invigorating, no one wanted to be the first to promise to help cover the substantial cost (of 40 million SEK—about 4 million EUR) of the planned mail-out and related projects (Interview 1). But Robèrt pushed on, calling all of the potential sponsors to a general meeting to be held in November 1988 at Arlanda Airport. He did not ask for confirmation, however, but simply wrote a letter of gratitude, thanking them all for agreeing to attend. As it turned out, everyone invited actually did show up and it was finally decided that the soon-to-be-founded foundation, TNS, would receive funding

(Interview 1).<sup>1</sup> With funding secured, in April 1989, Robèrt was able to present the foundation and its framework in an SVT Channel 1 broadcast, after which the initiative received congratulations and public support from several celebrities and other notable sources, including King Carl XVI Gustaf, then UN Secretary General Javier Pèrez de Cuèllar and famed Swedish author Astrid Lindgren. One week later, the booklet and audiocassette were mailed out to all schools and households in Sweden (Interview 1, Interview 9).

Thus, it was at this point in time that TNS and all it stood for became legitimized as an innovative blend of the logics of science and missionary work. It was seen as an innovation also for its outspoken ambition to bridge policy-making, activism, business and science, a contrast to “normal” organizational life where individuals spend much of their time in separate “silos”, at times criticizing one another for making the wrong priorities based on their respective institutional logics (Boström 2001; Windell 2006).

The node for connecting stakeholders and their different sub-paths into a common broader path had been created and legitimized in a very short time (nine months), and the spirit was entrepreneurial, innovative and professional, a blend that was also easy to support because it was not seen as a threat to any of the supporting actors. TNS was something new—a hybrid that embraced a bit of everything and had the ambition of helping to make the world a better place. As an idea and initiative, TNS was attractive to many, and around 1990 an organization was established to help fulfill its mission.

### 13.2.3 Onto the Beaten Path

It is fair to define the early 1990s as the heydays of TNS. It was more or less on everyone’s lips then, at least in Swedish industry, in the media landscape and in the political debate (Boström 2001). At that time, when

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<sup>1</sup> The Swedish foundation, *The Natural Step International*, gathers organizations that share TNSi values and have signed a license agreement permitting them to use the TNS brand and related materials. [http://www.thenaturalstep.org/www/wp-content/uploads/2017/10/SIGNED\\_TNSiArticlesofAssociation\\_Final\\_170524.pdf](http://www.thenaturalstep.org/www/wp-content/uploads/2017/10/SIGNED_TNSiArticlesofAssociation_Final_170524.pdf).

TNS started its operations, it had a first-mover advantage and was able to connect actors and their sub-paths in the then-sparsely populated emerging field of sustainability in Sweden. The environmental movement was already operating, and green parties had become established in a number of countries, but the dominating view was that industry was populated by capitalists with nothing but profit on their minds. In this context, TNS's politically neutral ambition to bridge science and society was seen by many in the business world as novel—an inspiring and much-needed addition to the emerging field. As recalled by the TNS coworkers recruited in the early days, the reference to “neutral” science helped to initiate many constructive conversations (Interview 7):

It was completely value-neutral. We didn't attempt to taint anyone with our values, and that offer of value neutrality seemed to open things up and motivate those concerned to start questioning their own views and values.

The established environmental movement activists, however, saw TNS as not having enough distance to the evil villains of the business community, but, as Boström (2001) notes, the comparative closeness in TNS's approach to different stakeholders enabled them to actually reach and involve them in fruitful dialogue. The common way for TNS to describe its position was to say that: “We are your critical friend—not only critical, but first and foremost friend” (Interview 1 and participant observation of two-day client course). And this applied not only to industry. As a hybrid, TNS's ability to persuade a range of different actors to join the widening common path did not only stem from its perceived neutrality. TNS also benefited from its abilities to communicate in a multivocal way. As Boström put it (Boström 2001, p. 89):

The Framework is the connection but the cognitive work of TNS is more nuanced. In the interaction with municipalities and larger corporations, specific frame bridges were used to enable an increased response.

After the initial phase of constituting TNS, managers of large respected corporations like IKEA and Electrolux began to call its small office in Stockholm and often wanted to meet Robèrt in person to learn more about the peculiar new hybrid approach (Interview 1). TNS responded

to these calls and gradually began to take on assignments instead of acting mainly proactively by providing knowledge and information. This also meant that, as an organization, it had to recruit new people to meet the demand of organizations that wanted to hire TNS to help them implement the framework. In a way, the new recruits were hired to serve as disciples to the founder and to help to share and spread the established framework to as many organizations and policy-makers as possible. At the same time, they also had to handle the increased demand for services (Interviews 3, 5–8).

As time went by, TNS incrementally developed and delivered services designed to contribute to orienting decision-makers from a wide range of organizations (public and private companies, municipalities, NGOs and others) to the sustainability issue and its translation into various institutional elements, such as texts, training programs and advice (cf. Furusten 2013). In some ways, this helped to shape the organizations into potential buyers with a demand for products and services not yet offered by anyone. Because it had now become possible to envision a future market for such products and services, aimed at helping to address and solve sustainability issues, more potential buyers turned to TNS, looking to purchase services beyond the scientific framework and enlightenment workshops first offered by the organization (Robèrt 1992, 1995, 2002, Interview 1, Boström 2001). Still, the advisors at TNS struggled to combine their scientific, missionary and seller roles and began, somewhat reluctantly, to charge clients market prices for their services (Interviews 1, 3, 5–8). This, in turn, meant that the funding model of the organization gradually changed. From being financed in the first years of the 1990s mainly through the foundation, donations and sponsor arrangements, toward the end of the decade TNS became a mainly fees-based organization (Interview 9). This development also came about as a response to diminishing interest from TNS's initial donators. Having already helped to fund TNS's start-up, they were concerned about entering a second round of donations to support an unprejudiced knowledge development and information distribution. This shift in income sources for TNS may also be seen as a sign of an ongoing market contraction. Besides TNS, a range of sellers had gathered to meet the growing demand for sustainability services (Windell 2006; Frostenson 2010; Alexius et al. 2017).

This development highlights the importance of the financing of hybrid organizations. As long as the hybrid's ambitions were funded by donations, financing was not an issue of conflict. The inflow of resources could be used to realize the initial hybrid mission. However, along with a decrease in organizations' will to donate to the cause, doing business gradually replaced missionary work as the dominating logic for organizing activities in TNS, although the scientific logic of neutrality remained a selling point. In the rhetoric "science" was still the basis for the services sold. But, as the TNS advisors recalled, fewer clients asked for science (Interview 3, 5–8).

Consequently, from about the mid-1990s, it is fair to describe the supply and demand of sustainability-related actions as an emerging field where sets of actors produce and demand recognizable services (DiMaggio and Powell 1983). This brought about a turn and a new balance in the hybridity of TNS—from having mainly represented science and missionary civic logics, the mission gradually drifted toward a market logic as TNS's consultancy role became more important in its daily practice (Interviews 1, 3, 5–8).

To handle the emerging field, in 1997 a limited corporation called *Det Naturliga Steget AB* (TNS Limited) was founded. The idea was to separate the commercial side of TNS from the scientific and missionary part, in an aim to de-hybridize and adapt to the developing structure in the field where different categories of actors, such as consultancies, research units and more activist organizations, could now be recognized (Interview 9).

Unhappy with this mission drift, Robèrt toned down his role as a manager at TNS and took a part-time position as a Professor of Sustainability at Blekinge Institute of Technology. Having faced some criticism (scattered voices rather than massive confrontation) from both the political left and the right, that his beloved framework was in fact neither scientifically solid nor neutral (Boström 2001). Robèrt defended it whenever he had a chance—in seminars, pamphlets, books and academic papers. A meta-study by Robèrt et al. (2002) represents an interesting example of this defense strategy and resistance to ongoing co-optation in the field, in which Robèrt claims that all the novel sustainability applications that flooded the market at the time should be seen as translations stemming from the TNS framework.

### 13.2.4 Mission Completed?

Around the turn of the millennium, the field of sustainability service providers began to get even more crowded (Interview 5). When comparing TNS's holistic solutions to that of their competitors, the competitors' solutions were more hands-on, while TNS still aspired to offer a more conceptual and academically based system (Alexius et al. 2017). As stated by the new secretary general, recruited in 2012 (Interview 2): "The academic connection is both our strength and our weakness". One of the senior advisors accounts for a change in how the clients responded to the framework, where it went from being seen as a respected and inspiring basis for interaction to almost a disappointment, soliciting comments like: "So you're still clinging to the same old framework, are you? Isn't it time to move on?" (Interview 3).

How to manage the organization's hybrid identity had been an ongoing struggle since the late 1990s. At that time, earning legitimacy for running a hybrid organization was even more challenging and, as a consequence, the de-hybridization of TNS continued. One significant example was the launch, in May 2008, of a new network for applied research, the Alliance for Strategic Sustainable Development (ASSD). The alliance was established by TNS, Lund University and Blekinge Institute of Technology and was initially funded by five Swedish research agencies—the Swedish Environmental Protection Agency, the Swedish Energy Agency, Formas, VINNOVA and NUTEK. It was based on the TNS scientific framework and, in some respects, represented a restart of the scientific dimension. But at this point, the field of sustainability had also seen the birth of a number of research initiatives. Thus, TNS was no longer unique in its scientific profile.

Later, the secretary general of TNS Limited described this development as TNS having "outsourced research" to other organizations (Interview 2). In the 2010s, external pressure to adapt its "product and service portfolio" to the field norm intensified internal discussion about which road to take, a discussion in which the commercial consultancy logic gradually won out (Interview 6, observations of internal staff meetings).



Still, the new management struggled to find ways to simplify the communication of what TNS could offer, without completely losing sight of its holistic ethical outlook and detailed scientific basis (Interview 4). In the mid-2010s, when asked how they presented what they did, one of the senior advisors interviewed replied:

[Long silence] It depends on how... erhm... how interested they really are. Because to understand what I do, kind of requires lengthy discussions. So, in that situation, I have to decide whether I feel like having that discussion, and if I don't, I simply say that I'm a consultant, or perhaps a sustainability consultant... If I said that I work in an idea-based organization of advisors that accelerate the transition towards sustainability and that we are "critical friends", then no one would really understand me.

And she was not alone in this observation. A similar reflection was made by one of her colleagues, also a senior advisor (Interview 7):

We take pride in being part of an organization where surpluses are used to develop our purposeful operations... But if someone asks me what I do for a living, I say: "I'm a management consultant."

TNS's new management and staff struggled to put their trust in policies, like a new salary policy, and in evaluation. However, this increased the conflict about how to maintain a hybrid identity, since emphasizing commercial efficiency and professionalism in consulting meant a step further on the trajectory toward the commercial logic of the consultancy. The decision made, however, was to adopt and implement the structures of a "proper" professional service firm, to find ways to define and transform TNS into a "normal", "comprehensive consultancy" (Interview 2, Interview 4, observation of internal staff meetings).

Although TNS's management team struggled from about 2015 onwards to implement the new order, its financial situation was uncertain, and the internal conflicts about whether or not to sustain the organization's hybrid identity continued. These internal conflicts finally led the founder to leave TNS, and shortly thereafter, in the spring of 2017, the organization filed for bankruptcy (Robèrt 2017). In October of the same year, however, a new benefit corporation (B Corp) called *Sustain in*

*Time* was founded by former TNS coworkers and was taken up as Sweden's new member in the TNS International (TNSi) foundation, which now included B Corps from 11 other countries from around the globe. Robèrt disagreed with how TNSi's new policy was developing, which corresponded with the direction taken first by TNS Sweden Limited and later by its successor, *Sustain in Time*. Only a few days after the new status of *Sustain in Time* was announced came the announcement on the TNSi website that Robèrt had decided to withdraw all engagements and to break off all association with TNSi (<http://www.thenaturalstep.org/news/>).

### 13.3 Management Responses to Changed Institutional Conditions: De-Hybridization

Summarizing the story of TNS, the initial, substantial funding from a number of Swedish organizations more or less ceased after the first-round donations. Thus, financing the hybrid through donations alone was not sustainable in the long run. However, it had helped to form a cross-disciplinary and cross-sector framework and to making it possible for TNS to take actions in order to create awareness in society about the need for a sustainable turn. It is thus fair to say that the initial funding and TNS's early activities made the organization into a significant bridge builder between, at the time, separate interests in society such as different sciences, the environmental movement and industry. To increase awareness and share knowledge and methods for implementing a sustainable mode of doing things in organizations from all sectors of society was also the main aim of the entrepreneurial founder.

Once the bridge between interests was built, however, the groups in society that had initially supported TNS with funding or other forms of support demanded something more. They had already crossed the TNS bridge, so to speak. TNS, on the other hand, wanted to maintain its early leading position as a bridge builder. The hybrid continued to act as if there was still a great demand for its "bridge", although the demand in all three of TNS's main areas (science, consulting and activism) had gradually

become more sophisticated, where new experts were more attentive to the new calls and were developing more specific knowledge and models.

One interpretation of this development is that the time for this hybrid was over. Having helped to establish the bridge where different interests could cross and join in new discussions, its mission was complete. But TNS wanted to stay in business and therefore, for financial reasons, responded to the new situation by gradually applying a more pronounced commercial logic. A significant sign of this is the establishment of limited enterprises in Sweden and in other countries as local branches to handle the commercial dimensions of TNS activities, with the Swedish foundation as the central hub. This was the beginning of the de-hybridization process, which was even more pronounced in TNS's founding, together with two academic institutions of a new research organization to provide applied research in the field of sustainability. Thus, research was outsourced from the core business of TNS, meaning that although the struggle to manage the organization as a hybrid with professional legitimacy in science, activism and consulting continued, the hybridity was now organized and managed in separate organizations, with the founder as the main link between them. In practice, however, the organized activities were de-hybridized and separated. The continued emphasis by the founder and senior staff on cultivating and maintaining the image of TNS as a hybrid contributed to creating a somewhat confusing image of the organization. This confused identity was not a particularly successful business model for consulting, which in practice had now become TNS's main field of activity. These conflicting internal interests, but mainly the declining demand for a hybrid "bridge builder", led TNS to file for bankruptcy in the spring of 2017.

We have now summarized what happened, but how can the legitimacy of the hybrid of one time period, and then the de-hybridization of another, be explained? It can be explained by changes in the institutional conditions for the kind of actions and services offered by a hybrid like TNS. Thus, around time when TNS was founded, the institutional conditions for organizations whose purpose was to develop and spread knowledge about sustainability to other organizations were highly favorable. The Brundtland Report, a UN initiative, served as a starting point, calling on organizations to operationalize strategies for a sustainable

transformation in all sectors—in science, activism and consulting, as well as in policy and practice. TNS did all of this at the same time, in parallel as well as in integrated processes, though science, activism and consulting were the three main logics combined. The case of TNS illustrates the fact that there is legitimate space for hybrid organizations at times when a field is “open”, in the sense that no particular logic for particular organizational forms is yet institutionalized as a standard. In our case, blending logics was seen as an appropriate behavior at the time. However, the case also indicates that this legitimate space is likely to shrink as the field matures and more specialized roles for actors become institutionalized. At the same time, alluding to different, more standardized roles under such conditions is not likely to generate legitimacy.

However, it is not only the institutional conditions in the environment that matter. How an organization’s management responds to these conditions is crucial. In the case of TNS, the entrepreneurship of the founder cannot be overlooked. Robèrt was not just any entrepreneur, he had very particular features. Firstly, he was a respected professional scientist himself. Secondly, he was not only a regular scientist but one with an outspoken hybrid approach to reach beyond the sub-path of his own discipline in an attempt to connect different scientific sub-paths on the issue of sustainability. And thirdly, the founder’s aim was to connect these different scientific sub-paths for the sake of a higher ethical cause (cf. Greenwood and Freeman 2017). Thus, he did not start from scratch. He had a broad sounding board that made it possible for him to improvise in ways that depicted him as a trustworthy and relevant representative to act in the role of bridge builder in issues concerning sustainability. A core component in improvising is to not behave awkwardly while combining established knowledge and patterns of behavior (Furusten 2013). Thus, you must behave in a recognized way in the situation you are in, although combining recognized components in somewhat new ways (Zack 2000). This requires skills and responsiveness to what your audience wants and expects to hear. In the late 1980s, there was a call for initiatives in the wake of the UN-initiated Brundtland Report. The founder of TNS was able to ride that wave and, based on his position and improvising skills, to act in what Jancsary et al. (2017) describe as a “multivocal” way, thus a way of communicating that assimilates interests rather than emphasizes separation

between them. This multivocal position helped to open the way for scientific dialogue and interaction and make it attractive for other scholars to become loosely connected to the TNS network. This in turn opened a space for TNS to become a central node where other paths and actors could coalesce. Assimilation and coalescence are described by Bothello and Salles-Djelic (2018) as mechanisms for path generation and, in the early days, TNS clearly played a path-generating role thanks to its hybrid identity and the improvising skills of the founder (cf. Furusten 2013).

The institutional conditions changed, however, as did the space for legitimacy of multivocal improvisers. By the turn of the millennium, sustainability had developed into a “field” in the terminology of DiMaggio and Powell (1983/1991), where a number of different categories of actors did different but “recognizable” and complementary things and engaged in a shared endeavor. Thus, around this time, markets for consulting on sustainability had emerged (Alexius et al. 2017; Frostenson 2010; Windell 2006); sustainability had become a topic that gained more and more interest from various disciplines in the research community, and sustainability was poised to become a top issue on the political agenda as well as an important aspect of strategies in organizations (Boström 2001). As a consequence, TNS faced competition in two of its core areas: science and consulting. Thus, when the path TNS had helped to generate matured into a field with clearer structures for different categories of actors, its earlier achieved legitimacy as a hybrid between science, activism and consulting, and leading actors in all of these three institutional spheres, began to be questioned.

To some extent this situation could be interpreted as the time for the hybrid being over. It was not specialized in anything; instead, it did a little of everything and had a generalist profile (Alexius et al. 2017). To deal with this situation, TNS headed into a great management dilemma. How could the organization keep its hybrid identity active, while adjusting its operations to changes in institutional conditions in the emerging field? The way TNS responded to the changed institutional conditions was to de-hybridize, specialize and concentrate on adjusting its activities toward the logic of a more standardized professional service firm and outsource research to institutions more oriented toward the academic logic of the work.

## 13.4 Conclusions

The question addressed in the introduction to this chapter was why the hybrid identity of TNS was challenged and why TNS's management responded with actions that led to de-hybridization. One conclusion is that the configuration of institutional conditions can be crucial to preserving an organization's legitimacy as a hybrid. When the institutional conditions are favorable, in the sense that the degree of institutionalization of structures is low, our analysis shows that hybrid organizations can play a significant, legitimate and demanded role in building bridges between different interests and actors. On the other hand, we have also seen that it is likely that the legitimacy of hybrid organizations is challenged when fields mature and standards for different roles emerge, such as scientists, activists and consultants. Depending on how the management of a hybrid organization faces such changes in institutional conditions, the hybrid identity of the organization can either be sustained or change. In the case of TNS, management stopped building bridges between different categories of actors and interests once the initial framework for sustainability was established. TNS was pleased with the bridge-building efforts made up to that point and from that point mainly echoed its early achievements. Thus, management made the choice to continue to offer services as if the institutional conditions were stable. TNS continued to perform the same improvisations over and over again until their message was no longer challenging or considered new. While the old audience wanted to hear something new, what TNS offered was not enough to keep them interested or to attract new audiences either. Consequently, the role of TNS changed from a path-generating hybrid to a somewhat exotic actor offering services based on what the field considered to be yesterday's knowledge and models. Officially, its mission remained, but in practice there was mission drift—from building an organization to spread the word (the mission), to the aim of preserving the organization by adapting the services offered to what the funders wanted to pay for.

To conclude, this chapter shows that external institutional conditions related to the degree of concentration of actors, competition among them and specialization and standardization of services in the field in focus,

and management's responses to these conditions, are important for whether a hybrid organization is able to preserve its hybrid identity over long periods of time.

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## Interviews

The nine interviews drawn on in this chapter were conducted in 2013 and are listed below in chronological order, with the informants' titles at the time of the interview. Each informant was interviewed once.

Interview 1. Founder of TNS. Interview conducted 18 April 2013.

Interview 2. Secretary general of TNS. Interview conducted April 19 2013.

Interview 3. Advisor at TNS. Interview conducted 19 April 2013.

Interview 4. Communication manager at TNS. Interview conducted 22 April 2013.

Interview 5. Advisor at TNS. Interview conducted 22 April 2013.

Interview 6. Advisor at TNS. Interview conducted 29 April 2013.

Interview 7. Advisor at TNS. Interview conducted 13 May 2013.

Interview 8. Advisor at TNS. Interview conducted 13 May 2013.

Interview 9. Chair of the TNS board. Interview conducted 14 May 2013.





# 14

## Revenue Diversification in Different Institutional Environments: Financing and Governing the Swedish Art Promotion Movement, 1947–2017

Martin Gustavsson

### 14.1 Introduction

The People's Movements for Art Promotion (*Folkrörelsernas Konstfrämjande, FKF*) was established in 1947 in order to promote the spread of fine art in Sweden. It is a meta-organization, which today consists of 44 member organizations that all in all represent 5 million individual members. FKF started as a non-profit *Bildung* organization financed by a combination of membership fees, grants from the state and revenue from the organization's own sales of art. As such, FKF is a clear example of a hybrid organization. The relation between the different sources of funding has, however, shifted over the years. In this chapter, I explore FKF's development and the management initiatives taken at critical moments in the organization's 70-year history, between 1947 and 2017, with the aim of contributing to discussions on the management of hybrid organizations by emphasizing their changing institutional circumstances over long periods of times.

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Revenue sources for non-profit organizations are not easily interchangeable (DiMaggio 1986: 8). A shift from public to private grants, for instance, could entail the sacrifice of some purposes in favour of others. Potential mission drift—from a social or a cultural project to an economic enterprise—is also associated with risk of legitimacy problems (cf. Ebrahim et al. 2014; Cornforth 2014). Was there mission drift and legitimacy crises in the case of FKF or did the organization manage to cultivate the original mission even though its sources of funding changed? Under what institutional conditions was employment of a business logic to generate resources perceived as a problem? Did changes in funding cause the organization to de-hybridize?

## 14.2 Revenue Sources with Different Meanings in Different Historical Contexts

The FKF is an organization that has been remarkably deeply embedded in and governed by its surrounding economic and political environment. The heydays of the organization, 1947–1975, coincided with the golden age of Western capitalism, the decades following World War II that have been called *the glorious thirty* (the UK), *les trente glorieuses* (France), *Wirtschaftswunder* (West Germany) and *miracolo economico* (Italy) (Crafts and Toniolo 2012). It was a period of exceptional and sustained economic growth and ambitious welfare policy reforms, not least in social democratically governed Sweden (cf. Esping-Andersen 1990 on the Scandinavian social democratic welfare states), which during the period was also characterized by symbiotic interactions between the state and various associations (cf. Rothstein 1992 on Sweden's corporatist era). In short, unifying people and breaking their isolation were considered worthy activities in this type of 'civic' society since they freed people from the oppression of selfish interests, which rule ordinary 'market' societies (Boltanski and Thévenot 2006). With its many ties to the labour movement and the Swedish popular movements (*folkrörelser*), FKF was structurally favoured in these decades. It received large contributions from the

social democratic state and had a lot of influence on cultural policymaking within the state, significant contributions from strong member organizations and growing revenues from the prosperous art market (Gustavsson 2017).<sup>1</sup> The increasing revenue from the market was not at all perceived as a problem during these years, not for the non-profit organization itself and not among actors in the outside world.

During following decades, 1976–2017, however, a period of recurrent economic crisis in society followed by general market reforms in Sweden as well as elsewhere (cf. Piketty 2014 on the conservative revolution of the 1980s) and an increased emphasis of a business logic led to major, growing economic problems as well as legitimacy crises for FKF. The government grants and membership fees—that had previously balanced the latently negatively laden market revenues (cf. Chang and Tuckman 1994: 288)—withered. In short, FKF ended up in a crisis spiral. The scarcity of available resources drove the organization to implement several market-oriented reforms (cf. Dart 2004: 297–298). The professional popular educators were replaced by professional economists as managers, bringing with them values and beliefs that previously were not represented on the board. The new leaders' recommendations, to prioritize easily sold art, caused a deep legitimacy crisis, and in the early 1980s, leading Swedish artists boycotted FKF (1982–1986) arguing that the organization had stopped selling 'serious' art. Ironically, in appealing to ordinary art buyers' preferences, FKF was eliminating the rationale for their very existence: to cultivate people's taste in art, not follow it (cf. Powell and Friedkin 1986). This mission drift and the scarcity of resources became untenable. In conjunction with the general economic crisis, in 1992, FKF went bankrupt.

Thus, one conclusion is that the economic-political-historical context determined when employing a business logic to generate resources for this non-profit hybrid organization became perceived as a problem. Using a business logic was not a problem per se but becoming dependent upon it was. FKF was therefore also in great need of supplementary sources of

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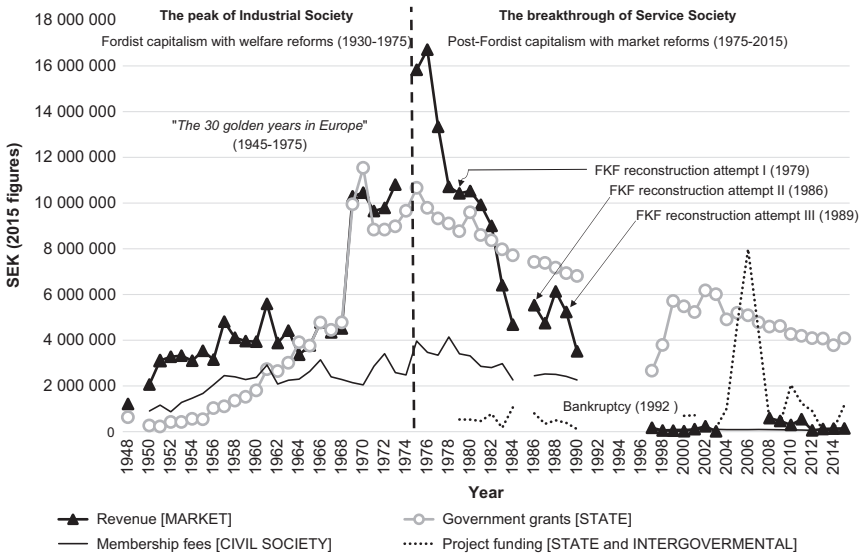
<sup>1</sup> Unless otherwise stated, all empirical examples in this chapter are taken from Gustavsson (2017). The study focuses on the National Association for Art Promotion [*Konstfrämjandets riksförbund*], not the regional districts, today 12 in number located throughout Sweden, from Skåne in the south to Västerbotten in the north.

income in the form of government grants and membership fees, a diversification strategy that ceased to function when society became marketized (the former generous state funding was reduced) and individualized (recruitment of members and unpaid sales agents declined). Another conclusion is that FKF was in some sense de-hybridized due to pressure from the environment in the late twentieth century. FKF started over again almost immediately after the bankruptcy in 1992, largely with the same mission of democratizing citizen's access to art, but now entirely without any revenue from art sales (the air had gone out of the market for graphic art), with only extremely small membership fees (many members had left the organization) and with no active influence over state cultural policy (the Swedish corporatist era ended in the early 1990s). The new organization, with the same name, was scraping by on shrinking grants from the Swedish state and temporary grants from the European Union. In that sense, the hybrid character became less marked after 1992. It was still a member organization but now lived almost exclusively off different types of uncertain public grants.

### 14.3 A Social Movement with State Aid and Own Sales Outlets

From an ideal-typical standpoint, the FKF belongs to the civic institutional sphere (cf. Table 1.1 in this volume, on dimensions of hybridity), since its formal organizational form is the non-governmental and non-profit association. However, its main source of financing has not been membership fees but grants from the state (cf. the political sphere) and revenue from its own sales of graphic art in the market (cf. the business sphere)—see Fig. 14.1 (which will be further described below).

The association members—also the owners—Sweden's economically strongest organizations, connected to the popular movements, including the Swedish Trade Union Confederation (*LO*), Swedish Cooperative Union (*KF*) and the *Folksam* mutual insurance company. However, since the original founders in 1947 (among others the aforementioned *LO*) believed that FKF would be self-financed through the sale of graphics, they never gave this meta-organization (cf. Ahrne and Brunsson 2008) a stable economic



**Fig. 14.1** The main sources of income for the People’s Movements for Art Promotion in Sweden [*Folkrorelsernas Konstfrämjande, FKF*] 1948–2015. Source: Annual Reports 1947–2015 (1947–1990/1991 retrieved at the Swedish Labour Movement’s Archives and Library, Huddinge; 1994/1995–2015 retrieved at the People’s Movements for Art Promotion’s own archive, Stockholm). Cf. Gustavsson (2017: 120–121)

foundation. Despite resourceful members—some 60 large organizations at the time of the bankruptcy in 1992—the threat of financial difficulty has therefore been a constant feature for FKF (Blomkvist 1997: 23). In order to survive, it has at times been forced to employ different solutions.

And while the original purpose was to increase and cultivate an interest in fine art within the organized social movements (among their own members), in practice, the organization’s activities soon became oriented towards a mission of doing good in society at large (i.e. for all citizens), including art buyers in the market (cf. ‘customers’ in Table 1.1). The strategy to counter ‘inferior’ (mass-produced) art by distributing ‘quality’ (graphic) art, through FKF’s own sales outlets and through unpaid sales representatives, was a fundamental part of the organization’s general purpose. This cultural policy goal—to achieve equality in an important part of the cultural sector by promoting interest in a different kind of art than that usually sold to a broader audience in the market—was caught in a

latent conflict with the goal of increasing sales revenues in order to become self-sufficient in the long run (*Konstfrämjandet under 70-talet* 1972: 5, 14, 19–20).

### 14.3.1 To Mould and to Follow Consumer Demand

*Bildung Arbeit*, educational work, consists of cultivating and refining. In the case of FKF, the educational efforts are directed towards influencing the demand for art: the organization counteracted people's demand for 'unserious' mass-produced art and encouraged them to buy 'serious' art from celebrated and professional artists. At the same time, FKF was dependent on sales revenues to secure their economic survival and therefore catered to a popular demand through the art that they distributed. Most of the time the sales of more legitimate art did not generate a surplus. Influencing public demand (as an educator) and satisfying this demand (as an entrepreneur) were thus two contradictory projects.

How has this goal complexity been handled and how have the activities been financed? Due to the actual hybridity of the organization, different demands and expectations from the institutional environment must constantly be managed to avoid a legitimacy crisis.

## 14.4 Dealing with a Changing Environment in Different Time Periods

The golden era of the FKF (around 1947–1975) was a product of and dependent on the golden age of social democratic welfare capitalism (around 1945–1975). The changes in this historical configuration constituted the driving force behind the emergence of an organization with—in the end—less marked hybrid characteristics (cf. Evers 2005: 739 discussion about driving forces). The fact that the social democratic state became less generous with grants and demanded increased economic self-sufficiency for FKF in the early 1970s (Östholm 2017: 47), and that the market for graphic art stagnated around the same time, are examples of such external political and economic factors that severely affected the organization and forced them to make internal changes, although all of

the changes occurred within the framework of an association. In order to answer the question why FKF did what they did, both in the beginning and at the end of the research period, a historical and macro-sociological approach is necessary. I therefore discuss the external embeddedness of the organization through an analysis of its economic and political conditions in two different periods, 1947–1975 and 1976–2015.

#### 14.4.1 An Environment Shaped by Capitalist Crises and Changing Cultural Policy

The structural crises of capitalist economies that shook society in the early 1930s and 1970s had a crucial impact also on the development of Swedish cultural policy. Other studies have argued that old interests and power bastions are weakened in conjunction with these types of structural crises—formative moments or critical junctures—opening the way for a variety of areas to shift into new pathways (Aglietta 2000: 371; Schön 2000: 24; Rothstein 1992: 17–18; cf. Djelic and Quack 2007: 168). The welfare reforms that followed the 1930s crisis, undertaken by Keynesian-corporatist welfare states in the era of nationally regulated Fordist capitalism with mass production and expansion of mass consumption (1930–1975), is one obvious example. The market reforms that followed the 1970s crisis, conducted by states influenced by neo-liberalism in the post-Fordist era (from 1975) with internationalized capital and more flexible production and individualized consumption, is another example (Hirsch 1991).

The social democrats came to power in Sweden in 1932 and remained in power uninterruptedly until 1976. The social democratic government reform operations were temporarily suspended during World War II but flourished thereafter. Universal holidays (two weeks, 1938), child benefits (1948), health insurance (1955) and occupational pensions (1960) are examples of central welfare reforms. However, the welfare reforms in the aftermath of the 1929 stock market crash also included reforms in the field of culture. In the 1930s, for instance, state art councils were established in Sweden, as well as in Italy, Germany and the United States. Artists were perceived to be a particularly vulnerable group in times of crisis. When people's economy deteriorated, they stopped purchasing art

before they stopped purchasing food. The artists therefore needed social support. The conditions for 'serious' artists were further worsened by the professed dishonest competition from cheap, mass-produced oil paintings, in Sweden often called *hötorg-art* [after *Hötorget*, Haymarket, a town square in Stockholm]. This art was also perceived to be detrimental to the development of the citizens' cultural dispositions. In 1938, the Swedish Arts Council initiated a systematic battle against *hötorg-art*, which included drastic measures such as an import ban (Gustavsson 2002). It was this struggle that FKF (founded in 1947) continued—in close cooperation with the social democratic state—after the war.

After the next major capitalist structural crisis that shook the Swedish economy, in the early 1970s, a more market-oriented regime was established. On the one hand, the state successively dismantled its social supportive role in the dying phase of Fordism. The conditions for regulating the national economy was negatively affected by the accelerated integration of the world market and the internationalization of capital. On the other hand, the state was still intervening, but in a transformed capacity, by deregulating and emancipating market forces (cf. Jessop 1991: 89). In Sweden, the shift was managed partly by conservative governments in 1976–1982, 1991–1994 and 2006–2014 and partly by more market-oriented social democracy in 1982–1991, 1994–2006 and from 2014 onwards. Deregulation of the Swedish credit market in 1985 (under a social democratic government) and the introduction of performance management in public administration and a competition-exposed public sector in the early 1990s (key components of new public management under a conservative government) are examples of market reforms that followed in the wake of the 1970s crisis and broke through with force during the financial crisis of the 1990s. A new official cultural policy, proclaiming rather radical social policy goals for art consumers and art producers, was in fact launched by the social democrats in 1974, but never properly financed. The appropriations to many cultural institutions began instead to fall after the 1970s crisis. The same pattern is also visible in a more accentuated form during the financial crisis in the 1990s. The fact that people cut back on art purchases in times of crisis was equally true in the early 1990s, the early 1970s and in the early 1930s. However, in the 1970s and the 1990s in particular, there was no generous state to provide support to suffering art-



ists, cultural institutions and cultural organizations. After the 1930s crisis, the state became social; in conjunction with the crises in the late 1900s, the state became more mercantile. Moreover, the corporatist system that had dominated in Sweden since the mid-1940s came to a halt in 1991, when the Swedish Employers Association (*SAF*)—who, for that matter, had cancelled their membership in FKF during the 1980s—decided to withdraw from all government boards (Rothstein 1992: 349). In addition to receiving smaller appropriations, civil society organizations' influence on the state also decreased (however, see Berg and Edquist 2017: 175–177).

The 'critical junctures' on the societal macro-level correspond to 'critical moments' at the organizational micro-level (Boltanski and Thévenot 1999: 359–360; cf. Alexius et al. 2017). The overall outlined development above also becomes clearly visible when the main sources of income for FKF are examined (Fig. 14.1). During the *30 golden years* of 1945–1975—a period marked by the full realization and success of Fordist capitalism and by intensified social democratic welfare reforms (see captions in Fig. 14.1)—the income from all sources increased: sales revenue (black line with triangles), government grants (grey line with circles) and membership fees (thin black line).

Income from all of these three sources fell following the structural crisis of the mid-1970s, when industrial society began to be replaced by service society, or with the concept used earlier, when post-Fordist capitalism with emerging market reforms took form.

Government funding was cut, despite a marked increase at a rhetorical level of the importance of cultural policy. In addition, as mentioned earlier, the corporatist system gradually became less pronounced. All in all, the ties to the state weakened (grey line with circles indicating government funding starts to drop in the mid-1970s). Furthermore, in the post-Fordist epoch with growing unemployment rates, weakened unions and an overall shift towards individualization, and the pluralization of lifestyles which this entails, it became increasingly difficult to recruit the voluntary agents—unpaid sales representatives active within FKF's member organizations that I discuss later—as well as new member organizations in general (cf. Hirsch 1991: 75–77).

The ties to the popular movements consequently also weakened (thin black line indicates a decline in income from members in conjunction

with the crisis). Finally, the air went out of the market for graphic art (black line with triangles indicating a sharp fall in revenue from the market starting in 1976). In a sense, this market was also a part of the social-political project. FKF's focus on promoting original art, colour lithographs in particular, for a reasonable price that could compete with the mass-produced, and often quite expensive, art broadened the market for graphic arts significantly (Blomkvist 1997: 27). The FKF was also path dependent in its actions (cf. Pierson and Skocpol 2002: 699–700). Even when the demand fell, it continued its efforts to sell prints, because graphic art was associated with the basic idea of the organization (Faxén Sporrang 2017: 204). However, hardly anyone wanted to buy it. And, consequently, when the next economic crisis hit FKF went bankrupt (in 1992).

This was not the end of FKF, however. Already the following year, in 1993, the organization was recreated under the same name. The finance situation had changed though, radically. As shown in Fig. 14.1, all of the old revenue sources began to decrease: membership fees are almost non-existent after 1993, government grants are on a downward trend and sales revenue is almost completely lacking. The fact that FKF became more of a project-funded organization is also visible in Fig. 14.1. Over the last 20 years, a new unpredictable source of income has emerged: project-based public support from, among other sources, the European Social Fund (ESF) (dotted line). Specific public initiatives also occurred at the beginning of the research period, but the nature of these investments changed over time. During the golden age of Swedish cultural policy (1945–1975), the state-funded project support consisted of a targeted culture initiative, to so-called art stores (see later). The addition of these resources broke a steady upward public funding trend (the grey line with circles rising sharply in 1969 and 1970 in Fig. 14.1). During the financial decline period of Swedish cultural policy (1976–2015), inter-governmental project support consisted of initiatives aimed primarily at creating jobs, helping businesses and enhancing the skills of individuals (see purpose of ESF 170531). The addition of these resources broke a steady downward trend in public funding (where the dotted line shows a major boost between 2005 and 2007). FKF was thus no longer able to balance various financial sources in the same way. In that sense they were de-hybridized, a necessary evil in order to adapt to the new funding situation around the turn of the century, 2000.

The change in external political and economic conditions had consequences for the internal activities pursued by FKF at different times, which is discussed in more detail later. In short, there were not many challenges to manage during the golden years. Money flowed in from different sources and FKF's mission was mainly viewed as legitimate by the outside world. After the structural crises and system change in the mid-1970s, however, problems began to surface: management consultants were recruited to remedy decreasing revenues, while members—as well as artists—abandoned the organization in large numbers, and the organization underwent a variety of reconstruction attempts in the 1980s.

#### 14.4.2 Selling Art Via Voluntary Agents in Close Cooperation with the State

The FKF utilized two main distribution channels to sell art. Firstly, between 1969 and 1975, it sold art through the abovementioned art stores. Secondly—and more importantly—it sold art, from the start in 1947, through unpaid sales agents [*ombud*]. The regional agents' activities began to grow in the 1960s. For FKF, as for many other popular movements, the voluntary agent system was a powerful instrument for reaching people across the country, at workplaces and in small communities and so on. The agents had both a cultural duty, to *show* good art, and an economic mission, to *sell* the good art, spurred only by their loyalty to FKF, and with no individual financial incentives. The agents were most often recruited from the large member organizations (Faxén Sporrang 2017: 188), which increased in number during the period (and consequently, so did the membership fees, see Fig. 14.1).

In addition to this support from a mobilized popular movement, FKF had substantial support from the state. Through a range of informal networks, they gained access to the central committees responsible for shaping post-war cultural policy. State officials also had access to FKF during this corporatist era (cf. Berg and Edquist 2017: 172). From the organization's start in 1947, the state had insight into the FKF. From 1968 on, a state official served on the board, an official who also appears to have had a significant personal influence (Gustavsson 2017: 130;

Östholm 2017: 42–43). In return, FKF was financially rewarded. Government appropriations increased annually between 1947 and 1975 (see Fig. 14.1).

### 14.4.3 Market-Oriented Reconstructions and Legitimacy Problems

When state funding began to decline in the mid-1970s, FKF became increasingly dependent on sales revenues, which also meant increased adaptation to the popular demand for ‘simple’ art. That was a big problem for the organization. As already stated, the idea of FKF was to influence popular demand, not to follow it. At the time, however, it was obvious that popular education was not a lucrative business, meaning that if FKF wanted to stay alive it had to find new solutions.

To adjust to these new circumstances, in the 1980s the organization changed its recruitment processes of leaders representing the movement, replacing culturally orientated professional popular educators (with close ties to the study associations) with professional economists (from the Cooperative Union KF), with the mission of salvaging the organization’s economy. The economists were carriers of a market logic, business thinking in general and a business-like organizational rhetoric (cf. Dart 2004: 302). Accordingly, they introduced a new governance model, which could be called a demand-driven ‘market model’ and which stood in stark contrast to the supply-driven ‘professional model’ previously used (Gustavsson 2017: 139). According to the new market model, the consumers are in charge and producers follow what the consumers want, in an attempt to produce goods and services to satisfy the average consumer. This is completely opposite to how the old model worked, where the expert—the teacher, professional producer of knowledge or public educator—not only acts as the attentive servant, but rather defines the need through taking responsibility for the quality of the services and the products offered. In this model, the students/consumers are expected to familiarize themselves with—and to a certain extent imitate—the teacher’s/producer’s thinking and not the other way around. In the eyes of reform critics, this was mission drift.

Three market-oriented rescue and reconstruction attempts were launched by the new directorate: one began in 1979, another in 1986 and a third in 1989 (see the captions in Fig. 14.1). These activities further deepened the conflict between economic principles and aesthetic ideals within the organization. The new leaders, along with a number of large member organizations—among them the trade unions and the cooperative movement—leaned more towards the economic side. Artistic advisors on the board and artists leaned in the other direction. In the early 1980s, the marginalization of artistic advisors and the presence of economists—and more market-driven activities—led to a violent reaction among Swedish artists, and for four years (1982–1986) close to 400 professional artists boycotted FKF. “There is a great risk in trying to be commercial. If you speculate in what people want you will always make mistakes”, commented the artistic advisor to the media (Leijonhielm 1987). The organizational consultants’ medicine “will lead to the slow and painful death of FKF”, he concluded in 1986 and resigned in protest (Hammerskog 1986). “The dim-witted peddler mentality” of the incompetent board “accelerated the death-rattle of FKF”, added the following artistic advisor (Rubin 1992)—who also left due to the conflicts in management—when FKF had gone bankrupt in the summer of 1992 (Gustavsson 2017: 146–148). The ambition to match consumer demand also failed, and revenues continued to deteriorate through the 1980s (see Fig. 14.1).

Although the new management attempted to reorganize FKF in a more business-like manner, and although ‘corporatization’ has, in FKF’s own historical writing, been identified as a cause of the bankruptcy in 1992 (Jansson 1997: 10; Blomkvist 1997: 35), FKF never started a subsidiary; they remained an association until the end (*Bankruptcy Decisions 1992-09-23*). The organization had fundamentally changed due to the pressure of a changing environment, but these changes occurred *within* the framework of a non-profit association.<sup>2</sup> FKF is still a member association today,

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<sup>2</sup>In Sweden there are two main types of associations: firstly, *economic associations* defined by the purpose to (1) promote the financial interests of members by (2) economic activity and secondly, *non-profit associations*, which are defined negatively, by failing to meet one or both of the two requirements of an economic association. The fact that FKF has always been able to be defined as a non-profit association despite pursuing economic activity (they meet the second requirement) is because their purpose is to promote members’ cultural—not financial—interests (they do not meet

although the member fees are extremely modest. As sales revenue is completely absent, in practice, only one source of funding remains: public contributions from various sources (cf. Fig. 14.1). In this sense, the ‘new’ FKF has had less of a hybrid character in its latter decades (1993–2015), than the ‘original’ organization had in the years 1947–1992.

## 14.5 Deeply Embedded in and Dependent on Different Political-Economic Contexts

I have demonstrated how the relationships between the different spheres included in the hybrid organization are renegotiated after changes in the institutional environment. The capitalist crisis in the early 1930s, 1970s and 1990s, which had a particularly crucial impact on society (critical junctures on a macro-level), also had a decisive influence on the hybrid (critical moments at the micro-level of the organization). Combining a historical and macro-sociological approach to examine the external embeddedness of the organization with a more micro-sociological approach to investigate the hybrid’s internal environment—how management responded to a changing society—has thus been fruitful.

The FKF started as a *Bildung* organization, financed through a combination of business revenue from the ‘market’, grants from the ‘state’ and membership fees from the social movement or ‘civil society’. Was there mission drift and legitimacy crises when the sources of funding from the different spheres changed? Was the employment of a business logic to generate resources for this non-profit *Bildung* organization with many ties to the labour movement and the Swedish popular movements perceived as a problem? And did changes in the funding cause the organization to de-hybridize?

Revenue from the market had different meanings in different historical contexts and was per se not a problem for FKF. The increasing revenue from the market between 1947 and 1975 was thus unproblematic. Rather, it was perceived as a confirmation that the organization’s *Bildung*

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the first requirement). Income derived from business activities has therefore also been exempt from income taxation. Cf. Mallmén (2002: 16, 56–61) and Chap. 15 in this book.

activities were successful. Indeed, one of FKF's aims was to spread 'good' art and the sales during this period were supply driven: FKF managed to create a demand for the type of fine art it embraced. The fact that the organization—during this period which coincided with the golden age of welfare capitalism, 1945–1975—also received more grants from the social democratic state and growing membership fees from social movement member organizations made it even less dependent on the market. This was in line with the mission of a *Bildung* organization, that is, to influence popular demand, not follow it.

Revenue from the market gained a completely different meaning in the more market-oriented historical context that followed on the heels of society's structural crisis in the early 1970s. Government grants as well as membership fees started to fall in this new 'market' society where actions were motivated by the desires of individuals rather than—as in the former 'social democratic', 'corporatist' and 'civic' society—by the desires of collectives (Boltanski and Thévenot 2006). The revenue diversification strategy, the strength of a hybrid to balance the various elements that it combines, ceased to work. FKF became increasingly dependent on market revenue. A series of organizational reforms were introduced, but the demand-driven market model tested did not succeed. Trying to sell 'simple' graphic art to satisfy many consumers in the market instead of following its own mission and selling 'serious' graphic art (in the eyes of agents within the field of art) only led to conflict with the country's leading artists, not to increased sales. In other words, employing the business logic in this historical context, during the 1980s, led to mission drift, legitimacy crises *and* less revenue from the market.

Perhaps, in other historical circumstances, FKF could have managed to cultivate the original mission despite changes to its funding sources. But the synchronicity of three powerful external forces—a stagnating market for graphic art, a decreasing ability and willingness of the state to support FKF and increasing difficulty in recruiting new members and voluntary sales agents—proved to be an insurmountable challenge. The original organization, adapted to a different kind of reality than the market world that slowly emerged after the structural crisis in the early 1970s, went bankrupt in 1992. In that sense, FKF did not de-hybridize, it died. But the reconstructed organization, with the same name, that arose from

the ashes in 1993 was in some sense a de-hybridized version. The new organization did not embrace all of the original missions: the strategy to fight ‘inferior’ art by selling ‘quality’ art, which had been a fundamental part of the organization’s original purpose, was not resurrected. Today, instead of three main sources of funding, FKF has two: negligible membership fees and uncertain public grants (which nevertheless consist of two sources: shrinking grants from the Swedish state and fickle grants from the European Union). However, the overall mission of democratizing the access to art remains the same, the formal organizational form remains the same (a non-profit Bildung organization) and the FKF seems to have succeeded in adapting this to the contemporary institutional circumstances for cultural organizations.

Thus, even though FKF did balance revenue sources from three different spheres during its golden years of 1947–1975, one can argue that, historically, it never was a balanced hybrid: in order to maintain its Bildung mission it was crucial that the organization was not too dependent on the market sphere. The organization was deeply rooted in civil society and the state, and when this fundamental imbalance actually changed, as the centre of gravity shifted from the public and civil logic towards business logic, mission drift and legitimacy crisis threatened its future.

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# 15

## A Legislator's Inability to Legislate Different Species: A Swedish Case Study Concerning Mutual Insurance Companies

Jan Andersson

### 15.1 Introduction

In this volume, we have seen a range of examples of hybrid organizations, focusing on different activities and constitutionally combining different institutional orders, logics and organizational traits. We have seen the challenges this entails for the management and governance of hybrid organizations. It is evident from earlier studies and the cases studied in this book that the existence of hybrid organizations is not a new phenomenon, and there are also signs that the hybrid organization is a topical organizational form on the rise in the world, not at least when attempting to organize activities to tackle social and environmental challenges. Until now, however, the status of the legislation regarding hybrid organizations has not been discussed explicitly in the literature on hybrid organizations or in other chapters in this volume. This chapter aims to contribute in

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this regard by focusing on legislation for the Swedish insurance industry in general and mutual insurance companies in particular.

The Swedish legislation concerning insurance companies is twofold. Basically, there is a legislative framework found in the Insurance Business Act (*försäkringsrörelselagen* or FRL; SFS 2010:2043 with later amendments), which is specific for all insurance companies and friendly societies. In addition, however, the FRL refers in many areas to the general law on companies or co-operatives. Thus, mutual insurance companies, for example, are in many regards regulated by the Swedish law on co-operatives although, from a structural standpoint, they arguably have more in common with companies.

From a competitive point of view, of course, mutual insurance companies have to compete in a market with other non-mutual insurance companies. However, the market for insurance companies, because of the legislative framework, may not be a playing field of equal opportunity for all insurance companies, but rather an uneven playing field for legally different—and therefore artificially—distinct categories of insurance companies. Since mutual insurance companies are regulated differently, the key question is: Are they competing with ordinary insurance companies on unfair conditions caused by an inept and, perhaps, somewhat lazy Swedish legislator?

## 15.2 Purpose of the Study

The purpose of this case study is threefold:

1. to investigate whether and, if so, to what extent the legislation differs as regards the regulation of different insurance companies and to what extent this regulatory discrepancy creates unwanted transaction costs and a divided level playing field,
2. to look at the legislative background to the current situation and its legitimacy, and
3. to offer a short note on the idea of whether an alternative legislative scenario including a “separate law regime” and/or a “choice of law regime” could possibly benefit mutual insurance companies.

## 15.3 Methodology and Structure

This case study uses a combination of traditional legal methodology and sources together with an additional contractarian analysis of the legal rules. Legal methodology in this context means the use of legal sources in the analysis of the law. The methodology is more or less common for the Nordic countries and focuses more on preparatory work preceding the legislation than is typical for civil law countries like Germany, at the same time as case law plays an important role in filling the gaps because of the absence of codes like, for instance, *Bürgerlichen Gesetzbuch (the BGB)*, Germany's civil code. A contractarian analysis of law is an economically inspired analysis of the function of the law, which I later describe in more depth.

## 15.4 Mutual Insurance Companies in Sweden

Mutual insurance companies have both a long tradition and a long history in Sweden. The country's first insurance institutions operated on a mutual basis were its *brandstod* ("fire aid"), which can be traced back to medieval times. A precursor to fire insurance, *brandstod* was a locally organized and mandatory system to help other individuals (e.g. fellow villagers) who suffered losses due to fire. Eventually, and partially as a result of a changing society and the fact that larger buildings could not be insured in a satisfying manner, Sweden's first insurance company, as noted also in the chapters by Lönnborg and Larsson and Sardiello, Alexius and Furusten in this volume—Skandia—was established in Stockholm in 1855. Skandia was later followed by Svea in Gothenburg in 1866 and Skåne in Malmö in 1884. However, none of those companies were mutual insurance companies.<sup>1</sup>

At the time, Skandia, Svea and Skåne were "mixed" insurance companies, that is, they offered both general (non-life) and life insurance. Non-life insurance includes a number of different products that cover a lot of

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<sup>1</sup> Larsson, M., and Lönnborg, M., Ömsesidig försäkringsverksamhet i den svenska modellen, NFT 1/2007, p. 86.

different risks such as, typically, property insurance and today also third-party insurance, legal expenses insurance, assault insurance as well as travel insurance. Life insurance is the risk associated with the life and health of the person insured but is today also a common form of savings.

The largest mutual insurance companies in Sweden as of today—Folksam, Länsförsäkringar and Skandia (which converted to a mutual as late as 2014)—can be traced back to, as in the case of Skandia *supra*, the mid-nineteenth century. Folksam was established in the beginning of the twentieth century. Länsförsäkringar, which consisted of 23 regional insurance companies in 1936, can also trace its roots to the nineteenth century.

Today Folksam, Länsförsäkringar and Skandia have a big portion of the Swedish insurance market. In 2016, the gross written premium for mutual insurance companies in Sweden for non-life insurance was around 50% and the figure for life insurance similar.

## 15.5 The Legislative Background

Mutual insurance companies were, *ex ante* the Insurance Business Act of 2010, regulated by the previous Insurance Business Act of 1982. Although mutual insurance companies were, and still are, fundamentally viewed as co-operative economic associations, the regulation was at the time fundamentally based on general company law, even if it was at that time described as a combination of principles and rules in company law and co-operative economic association law.<sup>2</sup>

The Swedish Government's directive to the Swedish Insurance Company Committee, responsible for the review of the incorporation provisions that at the time applied to Swedish insurance undertakings, stated that the general legislation on associations should provide the basic regulations for insurance businesses.<sup>3</sup> The Committee interpreted this as that the new act should combine regulations about the operation of insurance undertakings with the specific incorporation requirements that apply in addition to or instead of those laid down in general association

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<sup>2</sup>SOU 2006:55, p. 158.

<sup>3</sup>Dir. 2003:125.

law. The general provisions of association law were to apply by virtue of references in the new insurance business act.<sup>4</sup>

The Committee found that in determining the issue of which general incorporation law provisions were to provide the basis for an insurance undertaking, it would appear evident that the Swedish Companies Act should apply for limited liability insurance companies and that the Co-operative Societies Act should apply for friendly societies. What remained more uncertain, however, was what incorporation provisions should apply to mutual insurance undertakings.<sup>5</sup>

Policyholders in mutual insurance companies are both part-owners and customers and, consequently, companies of this kind should be operated entirely in the interests of the policyholders. The policyholders provide the company's risk capital and must be given the opportunity to affect its operations through either direct or indirect voting rights at a general meeting.

The Committee found that there exist manifestly overwhelming reasons for the application of the Co-operative Societies Act to mutual insurance companies. According to the Committee, there are many similarities, both in Sweden and in many other countries, between the mutual form of incorporation and co-operative economic associations. On the other hand, according to the Committee, a mutual insurance undertaking also differs in essence from a limited liability company.<sup>6</sup>

More specifically, among the arguments referred to by the Committee, a reference in the new Insurance Business Act to the Swedish Companies Act would be impractical for mutual insurance companies in that a limited company is based on shares. Such a reference would require many exceptions in the new Insurance Business Act and, to the extent such reference is possible, many adjustments would be necessary. If, instead, the Co-operative Societies Act were to apply to mutual insurance companies, neither so many exceptions nor so many adjustments would be necessary.<sup>7</sup>

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<sup>4</sup>SOU 2006:55, p. 160.

<sup>5</sup>SOU 2006:55, Summary in English, p. 5.

<sup>6</sup>SOU 2006:55, Summary in English, p. 5.

<sup>7</sup>SOU 2006:55, p. 167.

According to the Committee, the provisions relating to insurance undertakings must be neutral from the point of view of the competitiveness of the market in which they operate, and for this reason specific provisions should not result in unjustified distortion of the competitiveness between different Swedish insurance undertakings and between those in Sweden and abroad. The Committee was also clear regarding the fact that the Swedish Companies Act provides a better legal framework for access to risk capital than the Co-operative Societies Act.

Nevertheless, the Committee found that to apply the Swedish Companies Act would be contrary to the fundamental principles that mutual insurance companies are based on in that the mutual company is not an association based on share capital and shares, but it is instead the policyholders that provide the company's risk capital and collectively own the capital in mutual insurance companies. Problems associated with access to risk capital in these companies should instead be addressed within the framework of accepted principles for such companies even if, according to the Committee, in some countries this has led to mutual insurance companies having been "demutualized" into ordinary, profit-driven insurance companies.<sup>8</sup>

Trygg-Hansa—converted into the corporate form in 1989—is a good illustration of the problem of access to risk capital for an at that time large Swedish insurance company and its "demutualization", or at least that was one of the reasons given at the time of the "demutualization".<sup>9</sup> The Committee did not address the issue with this Swedish example in mind nor did it draw any potential conclusions from it.

Nonetheless, it should be noted that there are a few limited ways in which a mutual insurance company can raise external risk capital to the same extent ordinary companies can. One example is "participating debentures". With that said, neither before nor after the Insurance Business Act of 2010 is it in this regard a level playing field for mutual insurance companies. To sum up, the Committee found it natural, and also appropriate, that the legal basis for mutual insurance companies should be the Co-operative Societies Act.

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<sup>8</sup> SOU 2006:55, p. 170 and p. 194.

<sup>9</sup> Larsson, M., and Lönnborg, M., Ömsesidig försäkringsverksamhet i den svenska modellen, NFT 1/2007, p. 96.



In the legislative bill presented to Swedish Parliament, the Government recycled many of the arguments presented by the Swedish Insurance Company Committee and concluded that the legal basis for mutual insurance companies should be the Co-operative Societies Act and not, as in the past, the Swedish Companies Act.

In the legislative process preceding the legislative bill, however, a number of the mutual insurance companies and their representatives opposed the proposal that the legal basis for mutual insurance companies should be the Co-operative Societies Act. The aforementioned Folksam was of the opinion that mutual insurance companies should be regulated in a separate law.<sup>10</sup> A number of other referral bodies in the legislative work, such as Alecta, *Länsförsäkringsbolagens förening* (association for the Länsförsäkringar companies noted earlier) and *Sveriges Försäkringsförbund* (now Insurance Sweden), were of the opinion that the legal basis for mutual insurance companies should continue to be the Swedish Companies Act.<sup>11</sup> Even today, the recently formed Co-operatives Sweden is of the opinion that mutual insurance companies should be regulated by a separate law,<sup>12</sup> one may assume designed especially for them.

Regardless of the opposition from the mutual insurance companies themselves and their representatives, the Swedish Government insisted that mutual insurance companies should be regulated by the Co-operative Societies Act. The Swedish Government admits that legislation specifically designed for mutual insurance companies either within the framework of the new Insurance Business Act or, as Folksam suggested, in a separate legislation would be more coherent and accessible. But the disadvantage, in the view of the Swedish Government, would be that such specifically designed legislation for mutual insurance companies faces the risk of not being regularly updated in the same way as general association law, that is, the Co-operative Societies Act, and therefore may soon become outdated or even obsolete.<sup>13</sup>

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<sup>10</sup> Prop. 2009/10:246, p. 280.

<sup>11</sup> Prop. 2009/10:246, pp. 280–281.

<sup>12</sup> See <https://svenskkooperation.se/om-omsesidiga-foretag/>; downloaded 2018-01-02.

<sup>13</sup> Prop. 2009/10:246, p. 282.

The view held by some mutual insurance companies and their representatives, namely that the legal basis for mutual insurance companies should continue to be the Swedish Companies Act, was founded on the idea that mutual insurance companies in the future, similarly to in the past, should be treated equally with ordinary, profit-driven insurance companies and that the ever-ongoing evolution and modernization of company law is more accentuated by the legislator and, finally, that the previous legal basis in company law for mutual insurance companies has not created any problems.

The Swedish legislator rejected this latter argument on the grounds that there are many similarities between the mutual form of incorporation and co-operative economic associations, that it might not matter much in practice whether the legal basis for mutual insurance companies is the Swedish Companies Act or the Co-operative Societies Act, that there are many similarities between the two legislations whereas the latter is based on the former and that a reference to the Swedish Companies Act would require many more exceptions in the new Insurance Business Act than a reference to the Co-operative Societies Act.<sup>14</sup>

The Government therefore shared the opinion of the Insurance Company Committee that general provisions in the Co-operative Societies Act should apply by virtue of references in the new Insurance Business Act.<sup>15</sup> Ex post the Insurance Business Act of 2010, the end result is that general provisions in the Co-operative Societies Act apply by virtue of references in Insurance Business Act of 2010.

## 15.6 Regulatory Strategies

Company law or, to use the American terminology, corporate law can be viewed as a “standard contract”. The basis for the “standard contract theory” is the “nexus of contract theory” in law and economics, according to which the corporate entity is nothing more than a gathering point for a series of contracts, express or implied, among assorted actors: shareholders, bondholders, managers, employees, suppliers and customers, for

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<sup>14</sup> Prop. 2009/10:246, pp. 283–284.

<sup>15</sup> Prop. 2009/10:246, p. 285.

instance.<sup>16</sup> The “nexus of contracts theory” is also the foundation for “agency cost theory”, that is, minimizing the cost of the separation of ownership and control, as well as “transaction cost economics theory”, that is, that the contracts comprising the corporation are inevitably incomplete, and focuses on the governance mechanisms established by the parties at the outset to handle problems that arise subsequently.<sup>17</sup>

From a legal point of view, it is possible to take the “nexus of contracts theory” one step further and not only describe the corporation as a nexus of contracts but also argue that the corporation should be permitted to function freely.<sup>18</sup> From that viewpoint one can further derive two principles. The first principle is that the content of corporation law, which in a civil law system as well as in a common law system would include both statutory law and case law, should ideally be the result that typical parties to the contract comprising the corporation would have reached if bargaining were costless. Applying the principle leads to a situation where there is less need for the parties to use customized rules, and it therefore reduces transaction cost.<sup>19</sup> The second principle is that corporation law should function as a sort of standard form contract, an “off-the-rack” set of terms that parties may use at their convenience but are also free to alter. In other words corporation law should as far as possible be “opt-out” legislation.<sup>20</sup>

What has been described thus far is sometimes referred to as “normative contractarianism”.<sup>21</sup> Both of the aforementioned principles have in the past been, and still are, somewhat controversial. For instance, the first principle is often assumed to be equal to the idea that the sole purpose of corporation law ought to be private wealth maximization.<sup>22</sup>

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<sup>16</sup>See, for example, Gordon, Jeffrey N., 89 Colum. L. Rev [1989] 1549 at 1549.

<sup>17</sup>Ibid.

<sup>18</sup>Gordon, Jeffrey N., The Mandatory Structure of Corporate Law, 89 Colum. L. Rev [1989] 1549 at 1550.

<sup>19</sup>Gordon, Jeffrey N., The Mandatory Structure of Corporate Law, 89 Colum. L. Rev [1989] 1549 at 1550–1551.

<sup>20</sup>Gordon, Jeffrey N., The Mandatory Structure of Corporate Law, 89 Colum. L. Rev [1989] 1549 at 1551.

<sup>21</sup>Gordon, Jeffrey N., The Mandatory Structure of Corporate Law, 89 Colum. L. Rev [1989] 1549 at 1551.

<sup>22</sup>Gordon, Jeffrey N., The Mandatory Structure of Corporate Law, 89 Colum. L. Rev [1989] 1549 at 1551.

Regardless of whether one discusses corporation law specifically or association law in general, the idea that the law in this area should ideally be the result of what typical parties to the contract comprising the corporation or association would have reached if bargaining were costless is in my point of view not controversial at all. Neither is the idea that (if) law can reduce the need for the parties to use customized rules (and if so to what extent) and thereby reduce transaction cost for the parties involved. This is the case regardless of whether corporation law specifically or association law in general or any law in this legal field has as entirely or partially private-wealth-maximizing purpose or any other goal.

The second principle is somewhat more complicated to its end result, which is that the law as far as feasible should be opt-out legislation. But again, we can discuss to what extent “mandatory law” is necessary, that is, law that the parties cannot opt out of (by choice or by legislator-allowed “prefabricated alternatives”). Assuming, however, that we are able to agree on the extent to which mandatory law is necessary and what those rules should look like, it cannot be controversial to apply an “opt-out” approach, where the parties can use the standard form contract, as the legislation can be regarded as, and which the legislator has provided. At the same time, the parties are free to invent something regulatorily different and better for themselves if they think it is worth the transaction cost associated with that choice.

In addition to the aforesaid, legislation as well as individual rules in corporation law specifically or association law in general may be analysed from a supply and demand perspective.<sup>23</sup> The supplier of law is the state or, as the case may be, the EU or the federal government as in the USA. The demand side of law is made up of actors such as the corporation or association itself, shareholders or members, bondholders, managers, employees, suppliers and customers.

A supply and demand perspective ultimately illustrates what is fundamental for any legislation in private law such as corporation or association law, namely that, as long as the legislator has satisfied whatever

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<sup>23</sup> See Andersson J., in *Produkt, utbud och efterfrågan—ett tema och en policy för bolagsrättslig lagstiftningsteknik*, in *Vänbok till Ingrid Arnesdotter—Uppsatser i affärsrättsliga frågor och om utbildning i affärsrätt*, 2012, and in *ABL—Monsters Inc.?*, *Juridisk Publikation 01/2012*.

political goals the legislator from time to time wants to achieve, by way of mandatory law or, as the case may be, by opt-out rules or opt-in rules in the legislation, the legislation should meet the demand side and thus the needs of its end users, in the form of the corporation or association itself, shareholders or members, bondholders, managers, employees, suppliers and customers. In other words, the *law is very much a "product" for the end user* and should be constructed as such as long as it is not contrary to whatever political goals the legislator wants to achieve from one time to another.

From the "law as product theory" also follows that private law should never be constructed in such a way that it meets the needs of the supplier, that is, the state, rather than the needs of the "consumer" of the law, that is, the demand side.

## **15.7 A Contractarian Perspective on the Swedish Companies Act and the Co-Operative Societies Act in General**

The Swedish Companies Act of 2005 is a relatively recent legal product. It replaced the previous Companies Act from 1975. It contains approximately 850 paragraphs and is by any measurement an extensive and detailed piece of legislation, particularly in an international comparison. None of the other Nordic countries has, for instance, a similar Companies Act. On the contrary, although perhaps seldom stated outright, both Denmark and Finland seem to view the Swedish Companies Act as an "overregulation" and have since the Swedish Companies Act 2005 came into force in 2006 introduced new legislation<sup>24</sup> which is by far less extensive and less detailed than the Swedish Companies Act.

From a demand perspective, the Swedish Companies Act of 2005 applies to approximately 565,000 companies, whereof 1500 are public limited companies and about 500 companies are listed on a stock

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<sup>24</sup>Finland 2006 and Denmark 2009.

exchange. Hence, more than 560,000 companies are private limited companies, although a portion of these are not actively operating. Most of the active private limited companies have one or a small number of shareholders and are small family businesses.

Which type of company is then the “addressee” of the Swedish Companies Act? The answer to that is that nobody knows, not even the supplier of the legislation, namely the Swedish legislator. Assuming that a majority of the companies to which the Swedish Companies Act 2005 applies are small family businesses with one or a few shareholders, it would be natural to assume that the legislation in this area, at least in part, should ideally “mirror” the results that typical parties to the contract comprising such companies would have reached if bargaining were costless. Although there are a few legal innovations in the Swedish Companies Act indicating that, during the legislative process, there was some sort of awareness of small family businesses with one or a few shareholders and their typical needs, it is on average very difficult to find that the Swedish legislator had this type of end user in mind when assessing the law as an extensive, overly complex, product. Neither can the Swedish Companies Act 2005 be described as a product typical for the 500 listed companies, although these companies have been more successful in pursuing their interest by way of lobbying either for changes in the Swedish Companies Act 2005, keeping changes outside the Companies Act by self-regulatory means, or even by changing the interpretation of law without actually amending it.<sup>25</sup>

The Swedish Co-operative Societies Act is at this moment undergoing a reform, which has been more or less finalized. To a large extent, the reform is a modernization of the present Co-operative Societies Act from 1987 and can also be described as a liberalization of the present rules. As in the past, the new Co-operative Societies Act will have much in common with the Swedish Companies Act 2005 but with the changes necessary due to the very nature of co-operative economic associations. But again, and as is the case with the Swedish Companies Act 2005, it is difficult to assess which type of co-operative is the typical “addressee” of the existing and future Co-operative Societies Act.

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<sup>25</sup> For clear examples, see forthcoming article by Andersson, J., and Almlöf, H., Related Party Transactions and the Swedish Investor Protection—More to it Than Meet the Eye.

## 15.8 A Contractarian Perspective on the Regulation of Mutual Insurance Companies

Mutual insurance companies are, as we have seen, regulated by general provisions in the Co-operative Societies Act that apply by virtue of references in the Insurance Business Act 2010. This is true despite the fact that the mutual insurance industry would have preferred, and still would prefer, either a separate legislation for mutual insurance companies or at least that the legal basis for mutual insurance companies should be the Swedish Companies Act.

From a hypothetical contractarian perspective, it is very difficult to understand the Swedish Government's approach. No one should be better equipped than the mutual insurance industry itself to say which type of regulation they, as typical parties to the contract, would prefer if bargaining were costless. From a supply and demand perspective, this is an illustrative example of a situation where the supplier explains to the demand side what it needs, rather than the supply side trying to understand what the demand side needs, and providing a product that meets those needs.

Furthermore, the Swedish Government's arguments for applying the Co-operative Societies Act to mutual insurance companies are not overwhelmingly persuasive. One such argument was a response to an argument put forward by Folksam, namely that specifically designed legislation for mutual insurance companies faces the risk of not being regularly updated in the same way as general association law, that is, the Co-operative Societies Act, and therefore may soon become outdated or even obsolete. The argument is far from convincing. If there is a need for a specifically designed legislation for mutual insurance companies, such legislation must of course be updated regularly as any other law. Anything else suggests that the legislator is incapable of doing its job.

In addition, and from a functional point of view, it is clear that mutual insurance companies are at a disadvantage with respect to access to risk capital, compared to ordinary, profit-driven insurance companies. Furthermore, it is not enough to dismiss the problem by saying that it

must be solved within the framework of accepted principles for such companies. A market disadvantage for one group of insurance companies has an impact on the end consumer in the insurance market and is therefore an issue of concern to all since it may lead to higher insurance premiums than would otherwise have been the case. There are, in addition, other problems associated with mutual insurance companies that are not addressed in the current legislation.

However, the Swedish Government's insistence on letting mutual insurance companies be regulated by general provisions in the Co-operative Societies Act is consistent with a typical systematic and formalistic legal approach. For many law students as well as practising and academic lawyers, it is typical to insist on the existence and evolution of general principles and rules of law. The Government directive to the Swedish Insurance Company Committee is a good illustration of this in that the directive was that the general legislation on association law should provide the basic regulations for insurance undertakings. Hence, the Committee had little choice but could of course have objected to this in a separate chapter and given arguments against it.

The end result of the introduction of the Insurance Business Act of 2010 as applied to mutual insurance companies is—as far as I am able to ascertain here—a legislation that (potentially) adds further transaction costs for mutual insurance companies. It therefore places them at a disadvantage in the market compared to joint-stock private insurance companies.

## **15.9 The Alternatives: Separate Law Regime or “Choice of Law Regime” for Mutual Insurance Companies**

It is clear that the mutual insurance companies and their representatives themselves do not view the current legal regime in the form of the Insurance Business Act of 2010 as a legal regime where they are on a level playing field with private limited insurance companies. Such even conditions could hypothetically be accomplished in the form of either separate legislation for mutual insurance companies or a cross-reference to the



Companies Act 2005 in the Insurance Business Act 2010. My contractarian analysis of the current legal regime supports either of those approaches rather than the current one.

Alternatively, another solution would be to introduce a “choice of law regime”, whereby mutual insurance companies themselves can choose whether to apply a separate legislation for mutual insurance companies (or, as the case may be, the Companies Act) or general provisions in the Co-operative Societies Act. The additional transaction costs for a mutual insurance company following such a choice would thereby be the end user's choice (and potentially compensated by other factors) and not the supplier's (hence the legislator's) decision. Whether either of these alternatives is feasible is too early to say.

## 15.10 Conclusions

The first conclusion to be drawn from this chapter is that the introduction of the Insurance Business Act of 2010 whereby mutual insurance companies are regulated by general provisions in the Co-operative Societies Act (which apply by virtue of references in the former) was a very questionable legal change. The legislative change has created a situation where mutual companies may be subject to additional transaction costs and the market is not a level playing field, as intended.

The second conclusion to be drawn is that the legislative change that the Insurance Business Act of 2010 brought on for mutual insurance companies is based on legal, non-economic, arguments, which I find questionable. In essence, it was a legislative process, where the supplier (legislator) explained to the demand side (mutual insurance firms) what the latter needed rather than the reverse, that is, the supplier understanding what the demand side needed and providing a legal product that met those needs. The Swedish Government's legal argument was, simplistically, that there are many from legal standpoint systematic similarities between the mutual form of incorporation and co-operative economic associations, and therefore the Co-operative Societies Act, not the Swedish Companies Act 2005, should apply to mutual insurance companies. Ultimately this was a legal-systematic choice and not a legal-economic choice.

Third, it is clear that there exist legislative alternatives for mutual insurance companies. One is a “separate law regime”. Another is to apply the Companies Act of 2005. A third would be to introduce a “choice of law regime” whereby mutual insurance companies themselves make the choice. And a fourth is perhaps the time has come to discuss the overall legislative picture concerning hybrids. Additional research as well as a greater awareness on the part of the legislator of the status of hybrids may provide a path for the future. However, important to consider is also what implications changes of law regimes may mean for the governance and management of hybrid organizations.

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# 16

## New International Rules for Corporate Governance and the Roles of Management and Boards of Directors

Alexander R. Beshler and Staffan Furusten

### 16.1 Introduction

This chapter focuses on corporate governance of hybrid organizations from a judicial point of view, though specifically in relation to mutual insurance companies. As we have seen in other chapters in this volume, the existence of mutual insurance companies has a long history, where, for example, the Swedish Folksam was established in the early twentieth century. In 2016, a new European Union (EU) directive for corporate governance, covering also mutually owned companies, was launched, and

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this chapter explores how chief legal officers in a number of mutually owned Nordic insurance companies experience what the new directive means for corporate governance in their respective organizations. Since mutuality is not a new form of organizing, the EU directive in 2016 was not the first attempt to regulate mutual forms for organizing activities. Looking back to medieval Europe, we find many examples of earlier forms of collective organization, which mutually owned corporations are a form of. In those times, many voluntary associations of men and women, such as guilds and fraternities were founded.<sup>1</sup> One of the earliest examples of mutual organizing in Sweden can be traced back to the mid-fourteenth century. It was semi-official, meaning that it was mandatory—based on the legislation at the time in Sweden—that every resident in a certain jurisdictional district was obliged to contribute in case of fire. Each resident contributed to a mutual *brandstod* (essentially “fire aid”, an early fire insurance) that was paid out to assist owners of houses or livestock lost due to fire. Thus, forms of collective organization have a long history. But, as we saw in the chapter by Andersson (Chap. 15), the quality and relevance of the current legislation for this form of organization can be debated, since it is based on an idealistic and general idea of the joint stock company. This is remarkable given that we have many past as well as contemporary examples of different forms of collective organizing, such as banks and insurance undertakings in the field of finance, and—as we have seen in other chapters of this volume—in the agricultural sector, in health care and general care, in trade unions, and in sports clubs and other hobby-related associations.

Over time, initiatives have been taken to regulate the activities of collective forms of organizing and mutually owned enterprises, but in this chapter, we focus on a topical EU directive for corporate governance in the insurance industry, Solvency II.<sup>2</sup> An EU directive is a legislative instrument issued by the EU that sets out goals that all member states must achieve, though it is left up to the individual member states to devise their own laws to attain these goals. As of 2016, Sweden and all of the other member states of the EU transposed the Solvency II Directive.

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<sup>1</sup> Gervase Rosser, *The Art of Solidarity in the Middle Ages. Guilds in England 1250–1550*. Oxford University Press, 2015.

<sup>2</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The aim of this chapter is to examine how different insurance companies have adopted Sweden's transposition of Solvency II with regard to the directive's corporate governance rules. The study is narrowed to the responses by CEOs and the boards in these companies, and what they do in order to adapt the new rules in their respective organization (Besher 2018).

The study is based on a questionnaire survey carried out during the winter of 2016/2017 with follow-up in the spring of 2018. The survey addressed large Swedish insurers and the responses were obtained either through structured interviews with insurance company representatives or by explicit and written answers of insurance undertakings. The respondents constituted mainly chief legal officers, who were often also members of the respective company's management, or in some cases the company's chief legal officer plus a member of management. Ten of Sweden's most renowned life insurance companies took part in the study, of which five are hybrids. This chapter focuses only on the latter.

### 16.1.1 The Directive: Solvency II

The Solvency II Directive is aimed at protecting the policyholders, that is, insurance consumers. Another of its objectives is to stabilize the insurance market by increasing the awareness of risk in governance and operations and to deepen regulatory integration and harmonization between the member states of the EU. Solvency II is a wide-reaching directive and replaces over a dozen other directives in the field of insurance and covers almost all aspects of European insurance supervision. The Articles in the directive are detailed and stipulate how insurers are to be regulated and governed, how they are to manage and reserve for risk, and what they must report to each national supervisory authority and to the general public. The directive is based on three areas, known as the *Three Pillars*.

**Pillar 1** covers financial requirements and contains two solvency thresholds: first, the *Solvency Capital Requirement* (SCR) and, second, the *Minimum Capital Requirement* (MCR). The SCR is allocated to various risk-based capital modules and can be determined based either on a prescribed, standard formula as presented in the directive or on an internal model. If the latter method of calculation is used, the model must be

approved by the national supervisory authority of the respective insurer's home member state. The MCR is a calculated portion of the SCR and must at least be 25 percent but not more than 45 percent of the undertaking's SCR.

**Pillar 2** contains regulations on governance and supervision. It requires insurers to adopt an effective risk management system, including an insurer's *Own Risk and Solvency Assessment*, commonly known as ORSA. Pillar 2 also stipulates details regarding the conduct of the supervisory review process and interventions by the supervisory authority.

**Pillar 3** addresses reporting procedures and disclosure. Insurers are, inter alia, required to publish details of the risks they hold, their capital adequacy, and risk management measures. Further detailed reports must be submitted to the supervisory authority in the home member state of the undertaking to ensure that the SCR reflects the same risks stated in its accounting.

The directive has a vast content of Articles, some of which are very detailed in nature and consolidates previous directives in the area of life as well as non-life insurance. This study concerns Solvency II's section on corporate governance, that is, Articles 40–50 and how the insurers surveyed have perceived the transposition of these Articles. In other words, our objective is to examine how the insurance organizations under study have interpreted and adopted these Articles in their respective undertakings in practice.

## 16.2 How do Managers Approach New Transnational Corporate Governance Regulation?

The study is based on companies that operate according to the Swedish corporate governance system, which differs somewhat from the Anglo-Saxon one. In Sweden, the board of directors and the managing director (the CEO) are seen as two independent corporate bodies, each of which is entrusted with a legally designated area of expertise as well as roles to play in corporate governance. Nevertheless, while the CEO is required,

legally, to act in accordance with the board of directors, he or she is not obliged to do so by forfeiting the responsibility of the area of expertise entrusted to him or her according to law. This understanding is in following with clearly stated provisions in the preparatory work<sup>3</sup> and relevant sections<sup>4</sup> of the Swedish Companies Act.

The statements in the preparatory work for the Swedish Insurance Business Act of 2010—through which the Swedish legislator has transposed Solvency II—contravene the Swedish corporate governance system set out in the Swedish Companies Act of 2005. As a consequence, there are now two pieces of legislation intertwined through a system of cross-references, whereby the Insurance Business Act of 2010 refers to the Companies Act of 2005 with respect to the roles and duties of the CEO and the board of directors.

According to the statements drafted in the preparatory works for the Swedish Insurance Business Act of 2010, it is the board of directors *alone* or the board of directors and the CEO *jointly*—but *never* the CEO *alone*—who may be considered the administrative, management, or supervisory body (AMSB) of the insurance undertaking (Article 40 of the Solvency II Directive).<sup>5</sup> However, the EU directive does not stipulate how to transpose this Article. Rather, each member state within the EU transposes Article 40 and translates it so that it conforms to the member state's current corporate governance system. In Sweden, there are currently statements in the preparatory work to transpose Article 40 into legislation that contravene the Insurance Business Act, which state that these acts are not meant to complement or amend Swedish corporate governance legislation.

In the next section, we describe how CEOs and board directors from the five Swedish mutual insurance companies under study have experienced the launch of Solvency II.

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<sup>3</sup> See, for example, Prop. 1975:103, p. 374, “*Regeringens proposition med förslag till ny aktiebolagslag m.m.*”

<sup>4</sup> Swedish Companies Act (2005:551), Chap. 8, sections 29.2 and 36.

<sup>5</sup> Prop. 2015/16:9, p. 301, “*Genomförande av Solvens II-direktivet på försäkringsområdet.*”

### 16.2.1 Managers' Reactions to the New International Act

The responses of the hybrid organizations studied to the governance rules transposed into Swedish law that we report here were gathered relatively soon after the launch of Solvency II. This means that it can be difficult to get a complete overview of actual and coming consequences of the new regulation. This was also expressed by two of the respondents, who had not seen any significant consequences for their respective corporate governance structures. Still, a shared picture painted by the others was that the new rule has entailed an emphasis on details in the respective responsibilities of managers and the board of directors. The respondents also mention that they anticipate increased focus on establishing control of managers by the board, as well as more formalized routines regarding the types of information that must be reported to the board and the kind of reports the board requires and can expect from the managers. In the words of one respondent (R2):

The demands on reporting and control of management have increased, with the consequence that the CEO as well as the board must to a higher extent spend time on issues other than the business-oriented ones.

Another respondent develops this further, claiming that (R1):

The role of the CEO has changed along with changes to the board, in so far as the CEO's responsibility for day-to-day management has been reduced since the rule, according to the preparatory work regarding the rule, no longer restricts the responsibility for AMSB to the CEO. Moreover, there is now also ambiguity regarding the extent to which the board can delegate its responsibility in the sense that the wording states that the board should take decisions on certain issues, while the general proposition on the rule clearly states that the board should delegate certain responsibilities to the CEO.

These quotes illustrate how the respondents experience the role of the board as having become more distinct and clear, that the board now has



greater responsibility, which especially is manifested by its focus on capital and risk assessment and that the board is now supposed to be more involved in controlling and scrutinizing the more day-to-day tasks of management. However, the respondents also note that even though the responsibilities of both the board and the management are now more clearly defined, the definitions of their respective responsibilities can also be somewhat confusing and contradictory. At the same time as the board is supposed to take responsibility for more specific issues, it is also expected to ensure that responsibility be delegated to management. This suggests a need for local interpretations by organizations, when it comes to implementing the *intention* of Solvency II in practice. One consequence of this ambiguity, as expressed by one respondent (R3), can be that there is an increased focus on details in the reports management provides to the board:

Generally speaking, there is now more reporting, and more detailed reports, than before.... As we see it, the CEO used to have the formal responsibility for more issues, issues that now have to be handled by the board. There are now also more formalized processes and reporting from all key functions—compliance, actuaries, risk management and internal auditing. This requires new and more technical competence, different from ordinary auditing principles.

Thus, along with both increased requirements on detailed responsibilities of the respective parties and increased ambiguity of where the responsibility of the board ends and that of the manager begins, comes a need for other skills and expertise. Before the launch of Solvency II, at least in the Nordic countries, the division between who is responsible for what was more informal, which was also more in line with, for example, the Swedish national judicial system for corporate governance, as specified in the law for joint stock companies (cf. Chap. 16). In comparison to Solvency II, the Swedish legislation makes a clear distinction between the responsibility of the CEO and the responsibility of the board, where the board has a clear governing role and should not be too closely involved in the daily toils of management. An expression of this, somewhat paradoxical ambiguous situation exposed by increased formalization of

responsibilities for managers and boards, is the experienced increase in the need for new, more specific skills among board members. This was expressed by one of the respondents in the following way (R4):

The main difference is that the corporate governance rules in Solvency II define more clearly than before the skills members of the board need to have, as well as what parts of the business the board is responsible for. Although the requirements apply to the collective expertise of the board as a whole, the increased requirements for competence are surely experienced by all members individually as well.

Thus, the respondents feel that the more formalized responsibilities of the board mean that the role and responsibilities of CEOs are now also more distinct and formalized, which in turn raises demands for regulatory competence for people in management positions. The role and responsibilities of the CEO are therefore more clearly expressed now too.

Exactly what this means in practice, however, is expressed differently by different respondents. Some say that it has not really meant a change—neither in management’s work nor in the work of the board. Others, on the other hand, describe it as essentially a new situation. Yet others feel it is more a matter of Solvency II making responsibilities more definite and explicit but also of organizations that fall under the rule in Article 40 being expected to make their own interpretations about how to handle it, and thereby to consider the new international rule while at the same time complying with their respective national judicial systems (R2):

The preparatory works transposing Solvency II establishes that the concept of the AMSB is to be used to satisfy both dualistic and monistic corporate governance systems. That this is the case must be understood as that the ambition is to open the way for each EU member nation to adjust the implementation of the concept to their national judicial systems and corporate governance traditions.

The same respondent develops this further, adding that:

At the same time, it can be established that the situation is unchanged compared to before the adjustment to Solvency II, that joint stock insurance

companies, according to chapter 11, section 1 of the Swedish Insurance Business Act, should follow the provisions for joint stock companies in general, if nothing else follows from Solvency II or is specifically provided. Apparently, the essence of the bill is not expressed at a general level in Swedish law.

Consequently, the new rule, although specifying and formalizing the responsibilities of managers as well as boards, need not have so many consequences for daily practice in mutual organizations at the national level. Another respondent explains (R5):

It hasn't caused any practical changes so far for our company. We have, however, striven to implement the new rule in a way that fulfils the spirit of the new rule in a reasonable way, and so far it hasn't meant that the board of directors are more involved in the day-to-day management than before...

The respondent continues:

Thus, the way we have implemented the new rules in management of the firm so far would suggest that Solvency II harmonizes with Swedish rules for corporate governance since it hasn't caused any major changes. The fact that Solvency II stipulates that it is the firm that should verify the eligibility and reputation of the board is weird though. That officials in the firm should have a decisive influence in examining the board in these regards is practically precluded and goes against the Swedish rules for corporate governance. This should naturally be a matter for the annual meeting of the shareholders.

It is worth noting that the respondent refers to the annual meeting for *shareholders* rather than the general assembly for *members*, which would be the more correct label for this type of annual meeting, at least according to descriptions that appear on the websites of Folksam and Skandia, for example, two of Sweden's largest mutual (cf. Chap. 4). The use of the concept of "shareholders" intimates that the self-image of mutuals with respect to the kind of institutional logic they are incused with is that of

the joint stock company and not that of the association for members. As interesting as this is, however, complementary data would be needed to confirm whether this is a widespread self-view.

To summarize, although relatively few immediate consequences of the new rule were experienced, some respondents were of the opinion that the emphasis on detailed reporting from the managing directors to the board of directors will increase. Thus, they emphasize that, because of Solvency II, a heavier workload for both the CEOs and the board of directors can be expected. Still, some also said that, so far, no changes had been experienced in practice. Therefore, formally, the space for action by both CEOs and boards of directors has been restricted, where the board is now supposed to be more involved in and responsible for areas that, before the implementation of Solvency II, were in the hands of the CEOs. A few respondents argued that this does not correspond to the Swedish corporate governance system, where these two roles are supposed to be separated. Nevertheless, since the wording of the rule is general, some also suggest that as long as the spirit of the rule is implemented, the regulation that actually counts is the national one.

## 16.3 Conclusions

The data presented above is based on a small study of five mutual insurance companies active in the Swedish market; however, it is close to 50 percent of the largest mutual insurance companies on this market. Although not a very vast material focusing only on a specific part of the governance area of Pillar 2 in Solvency II, the material nevertheless enables us to see some patterns that indicate some interesting tentative results.

It is clear that the interviewed respondents in the mutual insurance companies studied seem to have experienced the regulatory situation following the transposition of Solvency II in fairly similar ways, although respondents' opinions on the impact of the new regulation and how it corresponds to national regulation on corporate governance differ.

Respondents moreover note that there are ambiguities in how responsibilities should be divided between the CEO and the board of directors and that the interpretation of how the rule should be implemented in a particular organization should be adjusted to the local regulations for corporate governance.

These results suggest that, despite the existence of the new international EU directive that is supposed to regulate the role of managers and boards of directors in, inter alia, mutually owned companies, it does not appear to have had a dramatic immediate effect. And due to discrepancies in how managers of different companies deal with the new law, it does not seem to have had much effect in enforcing standardization in the governance practice of these types of organizations. In fact, the respondents state that, in practice, mutuals are regulated by the national system for corporate governance, which is based on the law for joint stock companies (cf. Chap. 16). Still, although the respondents see few immediate changes, there are signs that they believe that the roles of management and boards of directors could change substantially if the rule were to be implemented more literally in the future.

To conclude, since Sweden's transposition of the governance rules in Solvency II emphasizes closer involvement of the board of directors in the day-to-day tasks of management of the mutual, this may mean a restriction of the space for managers to maneuver. To explore the actual consequences of the new rules requires, however, a study that tracks the development of corporate governance practice and the role of managers and boards of directors over a longer period of time. It also requires a broader set of data covering a wider range of respondents. Viewing the consequences over a longer time span is especially motivated since several of the respondents had seen no immediate consequences of the new rule, with some noting that the new rule is so generally worded that it can be translated in ways such that its spirit is followed, without having any particular consequences in practice. But again, since the new rule was implemented in 2016, it is not yet possible to get a complete overview of the long-term consequences it may have for corporate governance in mutual insurance companies.

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# 17

## Managing Hybrid Organizations

Staffan Furusten and Susanna Alexius

### 17.1 Introduction

This volume offers a rich collection of cases on what it is like to manage and govern hybrid organizations. A common characteristic that dates back to observations of organizational hybridity made as early as the 1960s (Cyert and March 1963) is that, at their core, hybrid organizations are best understood as arenas for conflicting interests, where different categories of stakeholders such as employees, owners, suppliers, customers, citizens, politicians, unions, managers and so on gather to negotiate their respective interests. In *constitutional hybrids*, founded with the explicit purpose of creating value through hybridity, by operating *in between* the market, the public sector and civil society, such conflicts of interests are incorporated in the organizational constitution (Alexius et al. 2017). From this, it follows that these constitutional hybrids

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typically bridge and blend several organizational forms and logics typically associated with the ideal business corporation, public agency and association, respectively (Chap. 1 of this volume, Thornton et al. 2012; Brunsson 1994; Sjöstrand 1992). The result of this clash of interests can be defined as political processes within and around organizations, where outcomes can be seen in the form of strategies that emerge to handle the dilemmas and challenges brought on by these clashes (Mintzberg and Waters 1985), in the actual performance of the organization, as well as in the evaluations made by key stakeholders in the institutional environment (Furusten 2013).

As noted in Chap. 1, hybrid organizations are topical in contemporary society with the pressure on organizations to take social responsibility, to have strategies for sustainability and to take new initiatives for social entrepreneurship having increased considerably since the turn of the millennium. But, as many of our case studies show, in certain contexts, hybridity has been a legitimized organizational form for quite some time. This is why we must not narrow our theorizing on management and governance of hybrid organizations to simply being built on popular contemporary forms of organizational hybrids, such as social enterprises (e.g. Dees 2001; Aiken 2006; Mars and Lounsbury 2009; Battilana and Dorado 2010; Mair 2010; Grassl 2011; Ebrahim et al. 2014; Battilana and Lee 2014). To do so would carry the risk that we may not learn how sustainable hybrid organizations have evolved over time, yet remained hybrid. There are indeed important lessons to be learned about hybrid organizing by widening the lens from one particular form of hybrid organization, for example, state-owned enterprises (SOEs) or mutuals (Doherty et al. 2014), to look for general patterns in the organization of hybridity. Bringing attention to the relationship between specific institutional conditions and the management and governance systems set up to handle these conditions is one way forward.

Based on the findings in the empirical case studies presented in this volume, the aim of this concluding chapter is to summarize and discuss what we have learned. This is a delicate task since the book covers rich material from many different cases, each characterized by its own specific institutional and organizational conditions. There are, however, some general patterns that we have identified and wish to draw attention to here.



In order to discuss typical dilemmas encountered in the management and governance of hybrids, and in constitutional hybrids in particular, we have organized the chapter as follows. In Sect. 17.2, we summarize and develop the theoretical and analytical framework for the volume, focusing on the institutional conditions and core dimensions of hybridity introduced in Chap. 1 (Table 1.1). Section 17.3–17.5 take this analysis a step further by discussing how the different dimensions of hybridity influence the management and governance of hybrids. By analyzing the findings from all of the empirical chapters through the lens of these dimensions (see Table 1.1, repeated as Table 17.1), we identify three common dilemmas in the management and governance of hybrids:

- financing a social mission and the risk of mission drift;
- overlap in the roles of key stakeholders and the risk of empty governance structures; and
- modernizing a hybrid while cherishing its constitutional hybrid legacy.

In Sect. 17.6, we take a closer look at the management and governance approaches, competencies and strategies used to handle these dilemmas. This analysis focuses on *multivocality*, a core aspect that we believe

**Table 17.1** Six dimensions of hybridity

Institutional order	Public	Market	Civil society
Organizational form	The public agency	The joint-stock company	The association
Owners/Principals	State (including counties and municipalities)	Shareholders	Members
Purpose	Administration and service of public benefits	Profits and dividends to shareholders	Facilitate actions to reach shared goals
Main stakeholders	Citizens	Customers	Members
Main source of financing	Taxes	Sales	Fees

Source: Adapted from Sjöstrand (1992), Brunsson (1994), Forssell and Ivarsson Westerberg (2007) and Thornton et al. (2012)

characterizes the leadership of successful hybrids. Improvisation and versatility are analyzed as dimensions of multivocality.

In the final Sect. 17.7, we conclude with a self-reflexive analysis of the challenges involved when trying to make sense of hybridity and hybrid organizations and discuss how we can escape some of the common pitfalls.

## 17.2 Institutional Conditions: Comparing Degrees and Configurations of Hybridity

Figure 17.1 is the analytical model applied in this book to illustrate the relations between, on one hand, a hybrid organization's institutional conditions and, on the other, the decisions and actions of hybrid governance and management. The institutional conditions are specified in six dimensions of hybridity, as defined in Table 1.1 in Chap. 1 (repeated in Table 17.1). The first dimension represents the three main institutional orders in society: the public sector, the market and civil society. Associated to each of these are ideal-typical organizational forms and logics: the public agency, closely associated to public sector logic; the joint-stock company to market logic; and the association (or foundation) to civil society logic. Organizational form is thus the second dimension. The remaining four dimensions of hybridity are more specific and closely related to

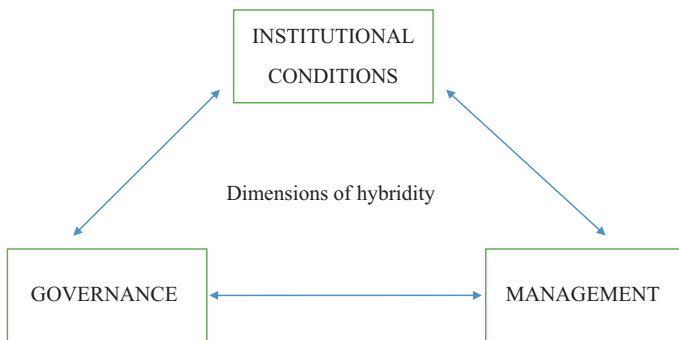


Fig. 17.1 Institutional conditions, governance and management

governance and management practices and include the hybrid organization's ownership structure, purpose, main stakeholders and main source of financing.

As seen in the empirical chapters, hybrid organizations differ in how these six dimensions come into play or, to use a metaphor, hybrids differ according to which "boxes are ticked" in the Table 17.1. We have found it fruitful to analyze these different set-ups in terms of different *configurations* and *degrees* of hybridity.

By *configuration of hybridity*, we refer to the set-up or balance between different organizational forms and logics. One hybrid may, for example, be dominated by a market logic, while another has a more even balance between two or more logics. In some cases, there may be a harmonious relationship between the different logics at stake, while in others there may be conflicts (cf. Alexius and Tamm Hallström 2014). In some cases, there may be a hierarchy, while other cases may be more heterarchical, that is, demonstrate an equal relationship between the logics and the respective values at stake (e.g. economic and social values, see Alexius and Cisneros Örnberg 2015).

By *degree of hybridity*, we refer to the number of dimensions where the organization demonstrates (or does not demonstrate) an explicit blend or bridge of forms and logics. Some hybrid organizations go through processes of de-hybridizing, where the organization may have started out with a high degree of hybridity in its operations and then gradually experiences a shift through which, typically, one or the other order and logic comes to dominate the organization's decisions and actions. As demonstrated in several chapters in the volume, the particular dynamics of de-hybridizing (or re-hybridizing) may be both subtle and dramatic, yet always bring about consequences for governance and management.

When comparing the institutional conditions across hybrids, following institutional theory, taken together, we expect to find that these conditions have an impact on the strategies chosen and actions taken by managers, owners and others engaged in the governance and management of the hybrid. In addition, we have the interrelationship between governance and management. Staying true to our findings, in Fig. 17.1, we have chosen *not* to illustrate a hierarchical relationship between governance and management, as formally expected, but rather a horizontal

relationship characterized by mutual influence and where it is not always clear, in practice, “who steers whom”. Although the institutional conditions are depicted in a hierarchical position to the organizational level, our cases offer many illustrations of the fact that owners and managers may be able to “pick and choose” elements from different societal orders to make up their own blend. In this volume, we have used the six dimensions of hybridity as an analytical framework through which to study our cases and make sense of the characteristics of institutional conditions, governance and management of hybrid organizations.

Through the lenses of Table 17.1 and Fig. 17.1 we will analyze the main findings from our cases by structuring the discussion of the core governance and governance challenges around the three dilemmas empirically identified: financing a social mission and the risk of mission drift, empty governance and overlapping roles of key stakeholders and modernizing while cherishing the legacy of a constitutional hybrid. In practice, these dilemmas are often interrelated just as the different dimensions of hybridity (Table 17.1) are interrelated, though each contributes to the understanding, much like reflections from facets.

### 17.3 Financing a Social Mission and the Risk of Mission Drift

For a constitutional hybrid, securing long-term financing to fulfill a social mission that typically spans several different orders and involves a combination of operational logics may prove challenging. Having access to enough money to run the organization is of course crucial for all organizations, but because hybrids tend to be placed in the intersection between institutional logics (Padgett and Powell 2012), the logic for financial support from the funders may shift over time.

The cases of the People’s Movements for Art Promotion (*Konstfrämjandet*) (FKF) (Chap. 14), International organization of good templars (IOGT-NTO) (Chap. 5), Friskis and Svettis (F&S) (Chap. 6) and The Natural Step (TNS) (Chap. 13) are particularly illustrative in reflecting the dilemma of possible mission drift and how it relates to the availability of financial sources for realizing a social mission. These four

cases show that hybrids that set out to operate across orders cannot count on generating resources according to the respective logics of the orders they bridge. The financing of an organization is always a critical factor, but compared to more ideal-typical organizations, a hybrid must face and acknowledge a diverse set of expectations from a range of different stakeholders and possible funders. As these cases show, depending on the demand for and the urgency of the social mission, there is a risk that the hybrid may have to prioritize any operation that generates the proper financing, which in turn may lead to mission drift.

The first of these cases, FKF, an art promotion organization, was founded as an association whose purpose was to provide popular adult education by diffusing “good” and educative art to promote “good” values and ideals in society. However, the art offered by FKF is not a gift, citizens must pay for it and are thus in a consumer relationship with FKF. In its early years, FKF’s activities were sponsored by membership fees from unions and consumer cooperatives, as well as state grants. This arrangement made it possible to offer “good” art at reasonable prices. However, over time, the institutional conditions for funding changed and FKF became more dependent on the commercial dimension of its activities, consumer demand for its art. With its financial conditions changed, FKF faced the dilemma of matching its own ideals for “good” art with the art that was in demand. Thus, offering educative art carefully selected by specially engaged art experts became a problem, for financial reasons. Still, FKF did not go as far as to abandon its social mission and transform into a full-blown broker in the art market. Instead, the organization manifested that its role was to be a promoter of good values in society through educative art. In practice, FKF had to adapt its operations to the situation of a reduced interest for financing public art education. As a consequence, the once relatively ambitious program is today marginalized and dependent on project funding. Still, the sales-based financing of FKF activities is central, meaning that the mission has drifted from the association’s original educative purpose to offering art that people are actually willing to buy.

The IOGT-NTO temperance movement organization (Chap. 5) is another, rather peculiar case of a civil society organization that “wants it both ways”, in the sense that it aims to continue to finance its operations

through the lucrative sales of tickets from its own lottery. The IOGT-NTO has members, but since the membership fees do not cover what IOGT-NTO wants to achieve, the organization's own lottery has become a dominant source of funding. The dilemma is, however, that while the organization's main purpose is to promote sobriety and non-addiction, its main source of funding is a lottery. Since the goods sold are politically sensitive with respect to the association's mission to promote sobriety and prevent alcohol abuse (due to the risk of another type of addiction: gambling addiction), IOGT-NTO keeps its own lottery at arm's length. Or rather, in an attempt to shift owner responsibility and escape mission drift, contestation and internal and external conflict, IOGT-NTO *pretends* that the lottery is an organization of its own, while, in practice, the lottery remains under its full control as a department of the IOGT-NTO association.

The third example of a hybrid organization faced with the dilemma of mission drift in relation to financing, F&S (Chap. 6), is an actor in the fitness and gym market. Although cultivating an identity as an association that is part of a civil society movement for good health, the case of F&S highlights that the identity of an association may be challenged as the focus on commercial activities increases. In this case, it seems that this hybrid has not lost sight of its original purpose. The surplus generated over the years has been used to develop the organization and to build more capacity to meet the increased demand in society for the services the association was once founded to support: fitness and health. However, along with increased investments in facilities and a larger organization, more resources are required to run things, and with this come demands from more stakeholders, as well as demands on financial performance. Moreover, when F&S started up in the 1980s, the market for fitness, health and gyms was not as well-developed, whereas today F&S faces competition in the market and must offer services that attract paying members.

The fourth example, the case of TNS (Chap. 13), is most illustrative of the dilemma of financing a social mission. TNS started out in the 1980s as a research-based "missionary" organization with the purpose of raising awareness of the need to transition to more sustainable approaches to production and life and to build bridges between different sectors in soci-

ety. There is, however, a real learning point in this case with respect to the ability to maintain the focus on the mission when the initial funding disappears. Initially, TNS received funding from a range of organizations for its missionary efforts to raise awareness about sustainability. But once the community bridges were built and the discussion and market opened up, the funders were no longer keen on providing a second and third round of support for the same type of missionary work. In order to continue to provide the hybrid with monetary support, the initial sponsors wanted something more substantial in return. They wanted advice and training, which meant that the main source of financing changed from donations and grants to income from consultancy services. As a consequence, TNS reluctantly adjusted its activities to what the clients of this novel consultancy were interested in paying for. Although the organization's formal purpose remained the same, in practice, this meant a change in focus—from knowledge development and awareness building to providing advice and training in the form of a de-hybridized management consultancy.

The dilemma of financing a social mission and the risk of mission drift is present in the cases of SOEs as well. As shown in Chap. 7 by Thomasson, Chap. 8 by Alexius et al., Chap. 9 by Canonico et al. and Chap. 10 by Jutterström, how to strike a balance between a political social mission and the profit-making logic of the joint-stock company is seldom obvious. In the case of Samhall (Chap. 10 by Jutterström), the organization was established as an SOE in the early 1980s with the purpose of providing jobs for people with different types of disabilities. However, this purpose became hybridized following an increased governance focus on financial performance influenced by the new public management agenda (Alexius and Cisneros Örnberg 2015, see also Chap. 8 by Alexius, Cisneros Örnberg and Grossi in this volume). Meeting financial objectives stipulated by the government became increasingly important, at the cost of activities related to more complicated cases where meeting these new financial objectives was more difficult. Thus, the Samhall example illustrates that a common struggle faced by SOEs is the constant need to balance meeting financially measurable objectives and delivering services that meet the actual social mission for which the enterprise was established.

The idea is that SOEs should be market actors, often competing with other market actors, and as such should also be self-financing. For political reasons, and following laws and standards of fair competition in markets, as owners, governments are unlikely to put extra capital into these firms when they want to expand or invest for reasons other than social good, as ordinary privately owned joint-stock companies are able to do in the form of gathering venture capital through issuing new shares. An SOE's freedom to act is thus restricted to self-funding organic venture capital structures, at the same time as the SOE is expected to contribute any profit generated, through "group contribution", to the state treasury. One reason for the state to own companies is to have the ability to finance social reforms outside the state budget, through resources generated by SOEs. This is a challenge for management and governance in these contexts since it means that if an SOE does very well, it is likely that the "owner" will take a cut of the profits to finance reforms, or that the organization may be triggered to prioritize profitable business at the cost of down-prioritizing its social mission, since the only way to get new venture capital is to generate substantial profits so that there will at least be some resources left for investment and innovation after the "group contribution" to the state.

## **17.4 Overlap in the Roles of Key Stakeholders and the Risk of Empty Governance Structures**

The social mission and availability of funding is a dilemma closely related to the second dilemma hybrid organizations have to deal with: that of overlap in the roles of key stakeholders. For many hybrids owned by their main stakeholders, this is in essence a fundamental question of how to organize for democratic influence. There are many cases in this volume that highlight the dilemma of overlapping roles (e.g. customers who are also owners)—and how these roles are both difficult to communicate and difficult to fill with substance. In practice, one of the roles (e.g. that of the customer) may dominate the individual's self-perception and relationship to the hybrid to such an extent that the governing structure becomes



“empty” of democratic influence. This, in turn, has consequences for management. If customers do not know that they are owners or do not care to execute their influence, who then governs the hybrid?

The insurance mutuals Folksam, Länsförsäkringar and Skandia (Chap. 3 by Larsson and Lönnborg and Chap. 4 by Sardiello et al.) studied in the volume, as well as the cooperatives Södra (Chap. 11 by Einarsson and Wijkström) and Texel Samen Beter (TSB) (Chap. 12 by Werner and Jellema), offer good illustrations of the management and governance challenges that stem from main stakeholders’ overlapping roles.

In the agricultural field, the producer cooperative Södra (Chap. 11) exemplifies an extreme case of overlapping roles, where the customers are normally members of their local agricultural federation. They are, in addition, suppliers to the cooperative insofar as they deliver trees to sawmills, at the same time as being customers who pay to have their trees refined into wood products and distributed to the end consumer. In this case, the roles of owners, members, suppliers and customers all overlap.

In the case of TSB (Chap. 12), a small group of citizens on the island of Texel in the Netherlands started a cooperative to improve health-care services. As the authors describe, despite a cooperative mindset on the island dating back to the Middle Ages, moving from the abstract idea of a citizen-led health-care initiative to actually “becoming” a fully functioning volunteer-based cooperative proved challenging for a number of reasons, not least because the board members had diverse aspirations for the organization and its identity and themselves struggled to balance their personal lives with their responsibilities on the board. Being a small and newly started initiative, TSB’s founders also had to engage closely in the operations of the cooperative and in recruiting new members. With a small board and only a few people engaged and many roles overlapping, the organization was fragile and sensitive to the decisions of individual founders.

A third example of overlapping roles is seen in the case of F&S (Chap. 6). In formal terms, F&S is a sports club, but it is not a sports club that operates in one geographical location as your typical sports club, like a local football club would. On the contrary, F&S has facilities all over Sweden, in Norway and in a number of other countries as well. In many ways, the organization resembles larger gym and fitness businesses. However, its governance and

financial conditions are different. Pay a yearly membership fee to the F&S association and you become a member and have the right to take part in its governance. If you also want to use F&S facilities for exercise and training, however, you have to pay an additional monthly or yearly fee. This arrangement makes it confusing for customers who are used to traditional gyms and not interested in paying for democratic governance rights. For F&S, however, remaining an association is key for several reasons, one of them being tax purposes.

The examples referred to above indicate that the ownership structures in hybrid organizations complicate the exercise of governance since:

1. The owners are often also producers, users or customers of the services offered by the hybrid organization.
2. It cannot be taken for granted that the owners know that they are owners and have a right as well as a duty to take part in governance actions.
3. If, in practice, many owners are passive, there is a risk that the governance structure will be perceived as “empty”, which in turn has consequences for management.

In terms of the dimensions of hybridity, the overlap between owners and other main stakeholders also explains some of the complexity of establishing clear legal structures for hybrid organizations. This, in turn, might be a reason why, as pointed out in Chaps. 15 and 16, there is no specific regulation of hybrid organizations (or, more specifically, of mutually owned companies, as discussed explicitly in the noted chapters). Still, the Swedish law is clear about the fact that all organizations that operate as if they were corporations should be regulated by the law of joint-stock companies. Although, as pointed out by Andersson in Chap. 15, this is a law based on very general assumptions of how a large joint-stock company is supposed to operate. One core dimension, especially in the Swedish system, is that the roles of managers and boards of directors should be clearly separated insofar as the board governs the managers but does not interfere in the daily toils of management (Chap. 16). In practice, however, there are problems with this system if the owners don't know or don't care that they are owners or are so distanced from management that they have very little influence, leaving key roles in the governance system “empty”.

The SOE cases presented in the volume offer additional illustrations to this dilemma of overlapping roles. One understanding is that the main stakeholders of an SOE, as part of the public sector and governed by a public logic, are the citizens. Formally, it is we, the citizens, who own SOEs, though this is not really how most of us perceive the situation. Formally, in democracies at least, we have the possibility of expressing our voice, as owners, in the form of voting in general elections for upcoming political mandate periods. In practice, however, the distance between us citizens, as the ultimate owners, and the exercise of governance of specific SOEs is great. This distance is clearly illustrated in Chap. 7, where Thomasson comes to the conclusion that even politicians are not always keen on being too invested in governance procedures. One reason for this is that it is regulated by law that an elected official in charge of the ministry or department responsible for governing a particular SOE is not supposed to exercise ministerial rule (see Chap. 8 by Alexius, Cisneros Örnberg and Grossi on the logics and practices of board appointments in SOEs). Another reason why political interest for engaging in SOEs is often low is because it is difficult for elected officials to take credit for their efforts, since SOEs are supposed to be market-driven and not politically governed. Consequently, the norm has been to operate at arm's length and let the civil servants follow standardized professional governance processes (which, however, are in practice influenced by political shortcuts). It would seem that expending energy on the governance of SOEs is not considered a priority for politicians with career ambitions (see also Strandqvist 2018). This means that much of the power to govern lies in the hands of civil servants, who, in practice, are supposed to follow political directives (Chap. 8). Consequently, the distance to the citizen-owners remains great.

## 17.5 Modernizing a Hybrid While Cherishing Its Constitutional Hybrid Legacy

Although the roles in hybrid organizations, according to what is expected from the institutionalized logics of different organizational forms, risk being confusing and a dilemma for these organizations and their

governance and management systems, the cases in the book have also highlighted a third dilemma for hybrid organizations: modernizing the organization while cherishing its constitutional hybrid legacy.

As implicitly discussed above, all of the hybrid organizations analyzed in this volume operate in markets. This means that they must meet institutionalized expectations of how market actors are supposed to act, as inferred by the institutional order of markets. Still, all of the cases studied also exhibit organizational features that tie them to either the civil society order and/or the public order and the ideal-typical organizational forms expected to represent the logics that best fit with one or the other of those institutional orders. This suggests that, while all of our case organizations are influenced by a market logic and act as sellers in markets, far from all of them are joint-stock companies, the organizational form that supposedly best matches the market order. And, as seen in the different chapters, being a seller in markets while not operating in the form of the joint-stock company is likely to present hybrids with the dilemma of modernizing the organization according to new management standards and fashions while aiming to preserve and respect their legacy as hybrids.

The cases of FKF analyzed by Gustavsson in Chap. 14, IOGT-NTO analyzed by Segnestam Larsson and Alexius in Chap. 5, and F&S analyzed by Fyrberg Yngfalk and Yngfalk in Chap. 6, are examples of organizations that are active in markets yet emphasize that they are not to be considered typical market actors. FKF, whose roots trace back to the mid-twentieth-century labor movement, acts as an art broker in the art market, offering a distribution channel for spreading art to people who might otherwise not become art consumers. FKF struggles to stay true to its mission of offering educative art that emphasizes “good” societal values in times when this is an a-modern activity. As a “non-corporation”, FKF is an organization that blends the institutional logics of all three ideal-typical organizational forms. It is formally an association, is supported financially through grants from the state, acts to promote “good” values and sells art in the art market. This means that its tentacles reach into the institutional logics of the public agency, the corporation and the association and it must endeavor to find an appropriate blend of activities where these logics do not clash.

The situation for F&S is similar yet different. Like FKF, the F&S organization cherishes its identity of being a sports association, not a company, but is different in that what it offers within that frame of sports club is physical fitness and health, which is in high demand and constitutes an established and clearly attractive alternative to the growing gym/fitness/health/training market. Still, much of what F&S does resembles the logic of the organizational form of the joint-stock company. For F&S, cherishing its identity as a sports association collides with how organizations acting under the institutional order of the market are expected to act.

IOGT-NTO also offers something that is in high demand—tickets to the Million Lottery. Being a seller on the lottery market, however, is not the core activity of the association. Ticket buyers are not the main stakeholders, society is. More precisely, it is individuals at risk of alcohol addiction and abuse that IOGT-NTO wants to help. What it offers is prevention, closely resembling what is expected of organizations operating under the public order. Moreover, formally, it is organized according to the civil society order and the logic of the association. Thus, the IOGT-NTO organization embodies a blend of the three institutional orders. At the same time as holding on to its public and civil society identities, however, IOGT-NTO also runs a lottery organized to function under the market order. The examples above capture hybrids making an effort to cultivate and stay true to their identities as associations that operate under the civil society order, while “borrowing” from the public organization logic. They also offer commercial services in markets in competition with other sellers, however, making their position a dilemma.

Another good example of what a hybrid organization may have to go through is given in Chap. 9 by Canonico et al. The case of Probec offers a dynamic perspective on how an Italian SOE in the cultural heritage industry has developed and adjusted both its ownership and its processes over time and in synch with the contemporary market and governance fashions of the past decade. The organization, first established in 2003 is a regional entity for cultural heritage acting in one of the Italian Southern Regions. In 2016, the organization was transformed into an in-house company entirely controlled by the regional government, which meant a change from a public-private company to a company whose sole shareholder is the region. The authors describe what they see as a paradox of a

publicly owned organization which has to work in a dynamic and project-oriented setting and under “private” constraints and regulations, while also adhering to a more rigid regulative framework typical of public contexts. Probec comes across as an organization which has remained faithful to its cultural heritage mission and that is not afraid of close collaboration across institutional orders and with private contractors, to fulfill this mission. Today this SOE is a key player coordinating public and private stakeholders for the touristic and cultural development of the region.

Dilemmas and collisions between different worlds are likely to arise in mutual organizations as well, where it is important that the organizations generate a healthy surplus through market activities (Chaps. 2, 3 and 4). In this sense, they correspond well with the joint-stock company logic and market order. However, mutuals also emphasize that the surplus generated will be invested to benefit the long-term interests of owner-customers (Alexius et al. 2017). In this regard, they resemble associations operating under the civil society order. Moreover, despite the intention to dedicate the use of these surpluses to the benefit of the owner-customers, it does happen that decisions are taken to give dividends (Chap. 4), as if they were shareholders in a joint-stock company. Typically, the surplus is used to offer lower premiums or extra insurance coverage, or to support entrepreneurship in the field of sustainability or other activities that are argued to enrich the owner-customers over the long term. Such behavior corresponds well to the association logic, where making a surplus is acceptable as long as the surplus generated does not exceed that needed for a financially sound and sustainable performance. It also resembles the public organization logic, where the aim is often to act in a preventive manner to support and encourage norms and structures for a sustainable future society. This situation may, however, cause confusion in the organization, as well as externally for other stakeholders mainly interested in the mutual as a market actor.

An interesting difference identified in the volume is that SOEs are not always as keen on promoting their identity as part of the public sector. In some cases, it may in fact be the other way around. An SOE, or even its owner representatives, may emphasize that it is a joint-stock company just like any other in the industry (Chaps. 7, 8, 9, and 10).

The dilemma of cherishing one identity while offering services associated mainly with identities of organizations operating under other institutional orders is a tendency seen in all of the cases studied, with the ones last referred to here being particularly obvious examples of how this dilemma materializes in hybrid organizations. Thus, while the hybrid identity of an organization may be relatively clear at the time when the organization is established, the cases in the book show that there are challenges to cultivating this legacy over time. These challenges are also reflected in Andersson's analysis of the legal structure (Chap. 15) which emphasizes the legislator's inability to legislate different "species", and thus the limited enterprise applies as the norm that all market actors of other forms and logics (in this case mutuals) must follow—whether or not it suits their operations. They are indeed different, however, since their buyers, or in some cases producers, are also their owners or members. The confusion concerning the concepts used is telling, but they also allow room for flexibility as discussed in Chap. 16, on the reactions of mutuals to a new EU directive for corporate governance.

## 17.6 Managing Hybridity

Hybrid organizations are similar to non-hybrids in the sense that their survival depends on critical resources and legitimacy from key stakeholders and the institutional environment. However, as seen in the illustrative examples above, most hybrid organizations differ from most non-hybrid organizations in that the hybrids must be able to handle a wider diversity of interests. Hence, as discussed earlier, managing hybrid organizations can involve complex dilemmas. As per definition, *dilemmas* pose an ongoing quandary and are not easily solved. In this section, we summarize and develop the learning points on how people involved in the management and governance of hybrids go about handling these dilemmas. We use the term *managing* here in the section to refer to both management and governance in the sense that the structures and processes of both management and governance aim to steer the organization forward.

### 17.6.1 Hybridity Cannot Be Taken for Granted: When De-Hybridization Proves Fatal

Most hybrids analyzed in this volume are constitutional hybrids that strive to preserve and nurture both their original mission and their hybridity and that have succeeded fairly well in doing so. However, as seen in the case of TNS (Chap. 13), this outcome cannot be taken for granted. Depending on how the dimensions of hybridity (Table 17.1) are configured, actions taken by management and boards of directors may either successfully manage to handle situations that arise in ways that defend and cultivate hybridity or lead to de-hybridization, transforming the organization such that it follows one or another of the ideal-typical institutional forms and logics more strictly, that is, moving the organization away from the experienced confusing place (Brunsson 1994) where institutional logics intersect (Padgett and Powell 2012).

If hybridity is increasingly perceived as a problem by management, de-hybridizing the organization can be seen as a solution and indeed a critical strategy for survival. The longitudinal case of TNS illustrates how changing financial conditions and decreasing demand for what the organization offered forced this hybrid into a de-hybridization process. To survive, TNS had to turn to other sources of funding, leading to a gradual drift away from the civil society order and association logic to a joint-stock consultancy logic where services offered in the management consulting market became the core operation. This was not the development the organization wanted or expected, but changes in the institutional conditions forced management to move toward de-hybridizing if TNS was to survive as an organization. De-hybridizing proved fatal for TNS, however, and the organization did not survive, not even as a consultancy. TNS is a case of a small organization with a relatively short life story (30 years), compared, for example, to the mutual insurer Folksam, which is able to look back on more than a century in operation. This suggests that the size of the organization and the imprint of its legacy (Chaps. 2 and 4, see also Stinchcombe 1965) are important for whether or not de-hybridization becomes an option. Although marketization has affected most organizations in the world, irrespective of which institutional order they formally operate under, since the late 1980s (Furusten 2013), and although its



prevalence in the later decades can be traced back to systematic movements from the 1960s (Saint Martin 2000) and 1940s (Salles-Djelic 2017), few organizations have gone as far as TNS and left their hybrid identity behind. Rather, in most of the cases studied in this volume, the organizations have pragmatically opted to improvise and use contemporary references to make sense of the hybrid in times of institutional change.

### **17.6.2 A Mecca for Multitalented Leaders: Cultivating Hybridity**

Pache and Santos (2010) describe hybrid organizations as living in a state of colliding worlds. And collision is at times a fitting metaphor. For well-functioning hybrids, however, it is not a state that is seen as a problem that needs to be fixed. Rather, it is an accepted and perhaps even embraced condition for their existence—something that those who engage in the management of the hybrid organization learn to cope with or even become experts at handling to the benefit of the mission. Although hybrids are designed to handle the institutional crossroads, a hybrid's legitimacy is not automatic. It needs to be cultivated and nurtured by its managers and board of directors and needs an accepting environment.

As briefly discussed in Chap. 1, our ability to perceive hybrids as either odd and problematic, or complex and challenging in an inspiring way, is fundamental to the mindset of leaders as well as other stakeholders in and around hybrids. Those who are able to accept and embrace complexity may refer to the potential special values and contribution hybridity brings to society. On a more personal note, they may also simply find managing hybrids more fulfilling since hybridity really puts management to the test and allows multitalented individuals with a broad portfolio of expertise and experience to be challenged and to thrive at work. Not all leaders are up for this challenge, but we believe that those who are have a lot to learn from one another—regardless of whether they manage an SOE, a mutual, a cooperative or an association with hybrid features. We hope that this volume will contribute in this regard and inspire further discussion and the sharing of strategies and experiences from and within this special leadership community.

## Multivocality: Improvisation and Versatility

Cultivating hybridity is what hybrid organizations are all about, since they can make use of the fact that they are located in between institutional orders and logics. This unique placement enables them to pick and choose different organizational attributes as it suits them best. In Chaps. 1 and 2, in particular, these institutional crossroads (or colliding worlds) are characterized as contexts with a high degree of institutional pluralism and complexity. Jancsary et al. (2017) suggest that the handling of such situations requires what they call “multivocality”, thus a skill that gives the organization the capacity to perform in ways that “talk” to different stakeholders based in different institutional orders. Jancsary et al. call for empirical studies on the topic and, based on the empirical analyses in this volume, we see multivocality as a concept that successfully captures what managing hybridity is all about. In our view, multivocality can be understood as a property that some organizations manage to develop while others do not, at least not to the same extent. When organizations have developed multivocality, it means that they have developed a capability to be flexible and adapt according to the situation they are in and the type of stakeholders they encounter. This can be defined as a capability that makes the organization flexible, much like the *Barbapapa*, a shapeshifting family of characters from children’s literature able to adapt their form and identity to new situations. Following this interpretation, multivocality allows organizations to be flexible and adaptable between and across institutional orders. Yet, these states do not just come to organizations because they act in contexts of institutional plurality. Based on our analysis of the dilemmas of hybridity above, we argue that multivocal ability is developed over time and reflected in how a hybrid is managed. Below, we argue that two parallel processes—improvisation and versatility—are central when managing hybridity toward a sustainable state of multivocality.

Improvisation characterizes actions that do not strictly follow a standard. Standards, and other forms of rules, such as law, are systems for creating borders. Rules define what is allowed and what is not allowed within these borders. Institutional orders and logics are, to some extent, manifested in institutional elements such as law but also conveyed through norms, standards, beliefs, values, routines and expectations

(e.g. Scott 1995; Furusten 2013). Improvisation does not mean that rules are broken but that the order they represent is interpreted, played with and can be combined with other institutional elements that characterize other institutional orders and logics. This means that an improvisation with the capacity to be accepted and legitimized as relevant in a particular context does follow the basic rules of a specific genre but also adds something unexpected, such as a structural trait from another institutional logic (Zack 2000; Furusten 2003, 2013b). When applied to music, for example, this means that improvisations that are appreciated by particular audiences follow the rules of a certain key, rhythm and the harmonies of a particular tune. In this sense, the keys can be likened to different institutional orders, the harmonies to institutional logics and the tune to specific rules. Within the limits of specific keys, rhythms and harmonies, skilled musicians can therefore choose not to follow certain rules (the tunes) and the music made will still make sense to the audience. There are also institutionalized logics behind how chords are supposed to go together and what sequences they are likely to be played in. If these basic foundations are not followed, the performer risks his or her legitimacy. There are, however, limitations, since the logic of specific music genres also plays a role in whether or not a specific music performance is legitimized by an audience. For example, even if the audience expects jazz, there are a number of genres within the wider music style (or institutional logic) of jazz, so if the performer delivers something other than what is expected from the genre the audience expects the performer to play, the performance risks not being seen as appropriate for the specific context. If, on the other hand, the expectations of the audience go hand in hand with the performance, the opposite is true and the audience will be pleased. This can naturally happen by chance, but it is more likely to occur as a result of repeated appropriateness by a performer who has learned to operate in the environment he or she performs in.

Zack (2000) argues that improvisation can be understood as a form of conversation between an audience and a performer. Hybrid organization may be seen as a genre of its own that plays out between orders and logics and that can thereby be defined as a conversation between organizations that do not necessarily share the same institutional logic or fall under the

same institutional order. It is a conversation that takes place between different audiences, each of whom has specific expectations of how the organization should perform in order to be seen as appropriate. Following this metaphor, managing hybridity involves establishing a conversation with all of one's various audiences at the same time, meaning that the improvisation must be based on central traits from different genres (i.e. institutional orders and logics).

The case studies presented in this volume offer several examples of how improvisation is exercised in practice. One fundamental example is the state of the legislation for hybrid organizations. As discussed in Chaps. 15 and 16, the legislation is vague and general, thus not specifically adapted to hybrid organizations. Transposing the existing legislation into organizational practice requires improvisation skills in order to translate international and national rules into local systems for corporate governance and, ultimately, into daily practices in local organizations. This type of improvisation requires judicial competence, since this is what the audience expects for this rule-based conversation. Judicial competence is also important in establishing conversations with government in areas such as policy and legislation relevant to mutually owned enterprises, in the insurance industry as well as the financial market (Chap. 3). This means that organizations with improvisation skills are able to engage in conversations with powerful stakeholders and thereby have the opportunity to contribute to constructing and designing their own institutional environment (Furusten 2013).

More specifically, improvisation in practice means that, in order to cultivate hybridity and establish multivocality, core representatives of the organization, such as managers and boards members, need to master the institutional logics of associations, joint-stock companies and public agencies, so that they can present their operations according to one or the other logic, depending on the situation. Let us take the example of a mutual insurance firm (cf. Chaps. 2, 3, 4, 15 and 16). In one situation, the "audience" may expect the organization to behave like an association, such as when the mutual insurance company organizes its member council. In another situation, the "audience" may expect the organization to behave like a joint-stock company, such as when the mutual insurance company meets its owners as customers in the insurance market. In a

third situation, the hybrid may be expected to behave like a responsible public agency, such as when the mutual insurance company meets with politicians to discuss the long-term sustainability of the pension system.

In the case of the IOGT-NTO (Chap. 5), management talks in terms of what its audiences in particular situations expect to hear, while taking measures to keep these conversations apart so they don't interfere too much with what one or the other audience expects. In this case, the organization is able to operate as if it were a corporation in the lottery market, although formally organizing this operation as a unit within the association. That core representatives of the organization have relevant improvisation skills and are able to balance the interests of different categories of stakeholders in ongoing conversations is crucial to nurture the organization's hybrid identity, and to not fully adapt, formally, to either the market order or the company logic, but rather to "have it both ways".

Another core dimension of multivocality is versatility, a skill that involves listening, taking in and relating to the kind of situation the organization happens to be in. This can be referred back to what March and Olsen (1975, 1989, 2011) meant by "the logic of appropriateness", hence, that it is important for organizations to understand what they are, what situation they are in and what organizations like them are supposed to do in that kind of a situation. Thus, being versatile means recognizing that having the relevant technical competence to participate in a particular conversation with important stakeholders is not enough to be able to improvise in a convincing manner. It is crucial also that this competence be combined with the skills to read situations and not overdo it with technical brilliance of a particular sort if that is not what is expected. To frame this in the jazz metaphor—if the audience expects lounge or elevator jazz, it is not appropriate to deliver a dazzling, technically brilliant bebop solo. As shown in Chap. 7 by Thomasson and Chap. 8 by Alexius et al., the ability to combine the formal and informal aspects of SOE governance is key to success. What cannot be achieved formally may often be achieved informally, like when financial and democratic values are integrated parts of the core mission. In Chap. 8, a closer look into the daily practices shows us that negotiating and aligning the political and the commercial logics at stake are key to the board appointment. These processes are, in turn, based on conditioned trust between civil

servants and politicians. Just as in Chap. 7, the formal relationship is mainly defined by the legal framework and existing regulations, while the informal relationship is referring to the dialogue between the owners and the companies that occurs as a complement to the latter dimension. While the formal relationship mainly reflects market values, the informal dimension is crucial in order for the democratic values to be protected.

Being versatile also involves judgment, knowing when to decouple certain activities from core operations (Meyer and Rowan 1977). The studies in this volume offer several examples of cases where the actual governance performed by the owners in different hybrid constellations is relatively weak. Management may handle fragile or “empty” governance structures of this kind by way of what could be called “ceremonial seriousness”. Taking legitimizing ceremonies seriously is an important strategy when protecting and cherishing the legacy and form of a constitutional hybrid. There is a balance between the power of management and owners, but it seems as if the higher executives in the hybrid organizations in many cases have the upper hand, since the interest on the part of the owners to take their governance responsibility and engage as owners tends to be low.

## 17.7 Conclusions and Future Research

The idea behind this book has been to explore opportunities and challenges in the management and governance of hybrid organizations. In the introductory chapter, we argued that this is a neglected theme in the contemporary literature on hybrid organizations, that until now many studies have focused on characterizing what hybrid organizations are and that the most common study object has been the relatively new, social enterprise. It has also been common to compare hybrid organizations with the organizational form of joint-stock companies. This book responds by broadening the field and contributing empirically based studies on forms of hybrid organizations other than the social enterprise, through a focus on long-established forms of hybrids operating under the market order, such as mutuals, cooperatives, SOEs and associations with hybrid features. Another contribution of the book lies in our comparison

of hybrids to hybrids. Several of the hybrid cases studied also have long histories, thereby contributing data on how hybridity can be preserved over time, as well as the reasons why hybrids face de-hybridization.

In terms of the opportunities and challenges of managing hybrid organizations (where we include in the concept of *managing* both management and governance activities), through analyzing in six dimensions of hybridity (institutional order, logic of organizational forms, ownership structures, purpose, main stakeholders and financing), we have identified three generic dilemmas: (1) financing a social mission and the risk of mission drift, (2) overlap in the roles of key stakeholders and the risk of empty governance structures and (3) modernizing a hybrid while cherishing its hybrid constitutional legacy. We argue that organizations that successfully manage these dilemmas also have better chances to preserve their hybrid organizational form over long periods of time, while de-hybridization tends to be the strategic response of organizations that do not manage to handle the dilemmas.

One conclusion from our analysis is that managing hybrid organizations is all about establishing a state of multivocality in conversations with core stakeholders, in that as the hybrid is legitimized as a relevant actor across institutional orders. Multivocality, we argue, is not a specific form of activity but rather an outcome of how well organizations, or more precisely the individuals in charge, such as managers and board members, manage to improvise on the structures for institutional orders and institutional logics that intersects where the organization is placed. By improvising in ways that satisfy the expectations of different audiences, and through versatility in terms of management's ability to read, take in and adapt to the different situations their organization faces, a state of multivocality, and thus a conversation between different stakeholders, is established. A consequence of this state of multivocality is that the organization has a good chance of being legitimized according to the logic of appropriateness and thereby that its identity as a hybrid will be seen as appropriate for dealing with certain issues in specific situations.

Although hybrid organizing is a growing field of research, theorizing on the management and governance of hybrid organizations is still at an early stage. This book has applied an explorative and multidisciplinary approach to view the phenomenon from different angles in order to

develop a broad and thorough foundation for future theorizing. We encourage future studies on the topic, for example, a comparative study on multivocality in different kinds of hybrid organizations. In this volume, we have chosen to emphasize the similarities between hybrids, hoping that this may contribute to strengthening both the academic debate and practitioner learning among all who engage in the management and governance of hybrid organizations.

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