THE 'STRANGE CASE' OF PRIVATIZATION
AN ORGANIZATIONAL ACCOUNTABILITY PERSPECTIVE

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Abstract
Privatization intends to promote organizations to be more responsive to consumer demands. Market institutions will force organizations to provide public goods in a more efficient way. However, the practice of privatization in the Netherlands shows that privatized organizations are less responsive to customers than before. Privatization of an organization implies that democratic accountability is also privatized. This development is explained from a multi-dimensional organizational perspective. In practice, privatization does not entail a shift from public monopoly to a free competitive market, but mostly the creation of powerful private enterprises operating in highly regulated and closed sectors. Privatized organizations are private in legal status, but continue to operate in a public environment. This duality implies a problem of control, because privatized organizations then have abundant and unconstrained discretionary powers to decide about redistributive policies. In a word, privatization is likely to lead to a public domain dominated by powerful private bureaucracies vis-à-vis a less powerful state and loyal, passive consumers.

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Introduction

Privatization is a 'Strange Case of Dr. Jekyll and Mr. Hyde'. Based upon the novel by Robert Louis Stevenson, being 'Jekyll and Hyde' refers to someone who shows overwhelmingly different behavior from one situation to the next, almost as if he were a different person. In the novel, Dr. Jekyll fabricates a potion with the intention to separate good and evil in men. Drinking the potion turns him into Mr. Hyde, who then starts to dominate Dr. Jekyll's personality. Jekyll desperately tries to fabricate enough antidote to rid himself of Hyde's evil domination. Unfortunately, he fails and commits suicide. For over two decades, governments around the globe have tried to turn their Hyde-like public sector into a Jekyll-like one by means of privatization. For long time, privatization has been seen as some sort of magical potion that would turn ambiguous and wicked bureaucracies into forthright and benign private enterprises. It was thought that privatization would create a new sector that would display overwhelmingly different behavior. However, behavior of organizations that provide public commodities proves to be not that malleable. Instead, it now appears that privatization is increasingly leading a profit-oriented Hyde to dominate a democracy-oriented Jekyll.

This paper investigates the practical consequences of privatization on public service delivery and citizens by focusing on the privatized organizations. The argument is made that the privatization of an organization implies that democratic accountability is also privatized. While the economical benefits of privatization remain disputed, privatized organizations are less open and responsive to customers than before. Main reason is that acquiring a private legal status implies that an organization is no longer bound by rules and procedures that enforce democratic control and accountability. Privatization creates a tension in which privatized organizations still operate within the public domain, but have ample discretionary room to maximize profits without regard of customer demands. The state remains highly involved in privatized sectors, but is less able to effectively control the privatized organizations. As such, it is concluded that privatization does not lead to more efficient customer-oriented enterprises, but to opaque and unresponsive profit-oriented bureaucracies.

Much has been written about the effects of transferring the provision of goods and services to private organizations. Scientific literature has mostly focused on changes in the institutional arrangements of privatized sectors. Empirical research is based on a rich political-economic research tradition that discusses the proper balance between state and market (see Lowery, 1998). On the theoretical level, research has concentrated on the institutions needed to prevent market failure, and on the empirical level the focus has been on increases in economical performance. In general, organizations are assumed to respond deterministically to changes in their institutional environment.

However, organization theory points out that internal dynamics affect the outputs of an organization (see Simon, 1997). In the current privatization literature, effects of privatization on internal organizational structures, institutions, and behavior are by and large theoretically and empirically ignored. Privatization theory hypothesizes organizations to become more responsive to consumer demands (Ostrom and Ostrom, 1971; Savas, 1987). However, from an organizational perspective, the degree of responsiveness is a function of internal organizational dynamics. The guiding question of this analysis therefore is: *how does privatization of public goods and services delivery affect the responsiveness of privatized organizations?*

Goal of this paper is to formulate a multi-dimensional model for the evaluation of privatization. Researching the effects of privatization is benefited by a multi-dimensional perspective. Instead of focusing solely on the economical or political dimension, a multi-dimensional perspective combines and confronts political, economical, legal sides of privatization (cf. Dijkstra and Van der Meer, 2003). This paper will start with a discussion of the concept of privatization to demonstrate its multiple and complex meanings. Next, I argue in favor of a model that integrates multiple dimensions on the basis of organizational accountability. A case study of the Netherlands shows that organizational accountability is a multifaceted and crucial factor of privatization. In order to deal with this empirical complexity, the privatization literature has to be integrated with the organization literature. This line of thinking leads the analysis to suggest that privatization has to be evaluated on changes in bureaucratic structure, in the use of professional expert discretion, and the authority of managers. Analyzing privatization on each of these factors leads to the conclusion that privatization leads to less accountable organizations that continue to operate in a political environment.

Defining privatization

Privatization is commonly defined as *the shift of the production of goods and services from public to private organizations* (Starr, 1988). This definition serves as a useful starting point, because it immediately raises the question what the difference is between a public and a private organization. An answer to this question is problematic, because of the multifaceted nature of privatization on a conceptual and empirical level.

First, privatization is conceptually vague, because of the ambiguous distinction between the concepts ‘public’ and ‘private’. Debate about the proper distinction between these two concepts in theory and in political practice goes all the way back to Ancient Greece (Hodge, 2000: 32-34). Separating public and private has always been difficult, because these concepts can have a variety of meanings: open and closed, state and market, state and society, society and personal, or market and family. Privatization is based on the liberal-economic interpretation of public and private (see Smith, 1910) and assumes a strict separation. It refers to public as the realm of government activity for the public interest and to private as the absence of government intervention, i.e. the free movement of individuals in the market (Starr, 1988; Weintraub and Kumar, 1997).

Theoretically, this strict distinction has not been upheld. Pesch (2005) traces an increasing scale of confusion in theories about state and market. Theoretically it could not be maintained that state was not necessary to guarantee the free movement of individuals in the market. Markets were on themselves not able to prevent externalities and monopolies (Pigou, 1922). Subsequent theories provided different answers to the question which institutional arrangement is best suited to optimize the exchange between consumers and producers and minimize externalities. Debate between the theories of market failure (Bator, 1958), government failure (Le Grand, 1991), and quasi-market failure (Lowery, 1998) learned that there is no final answer that applies to all situations. Currently, states and markets take on features that belong to the conceptual realm of public and private (Pesch, 2005; Kaufmann, 1991). Thus, privatization cannot be simply described as a shift from public to private.

However, public and private have been treated as clear and distinct entities in political debate. Privatization was part of a global reform wave directed against the active and increasing role government had taken between 1945 and the 1980’s. Government ownership was no longer considered necessary for economical development. Instead, privatization symbolized the idea that society needed more private and less public organizations. As such, privatization described a direction of change without giving clear substance to the change process (Megginson and Netter, 2001: 322-323).

The aims, specific means, and even the label privatization have been developed on the way through explicit attempts at changing the role of government (Starr, 1988). Privatization includes a wide array of policies directed at making more use of private actors and market mechanism to achieve public goals and simultaneously reducing the scope, functions and influence of the public sector (see e.g. Donahue, 1989: 7; Wright, 1994: 7; Van Damme, 2004: 45). The literature distinguishes between asset sale, change in funding system, deregulation of entry rules for market, contracting out, private provision of services, investment projects, reducing subsidies, sale of land or housing stock, transfer of policy responsibilities, joint public-private production ventures, user fees, vouchers, and the introduction of private sector management (Starr, 1988; Vickers and Yarrow, 1991; Marsh, 1993; Wright, 1994; Feigenbaum et al., 1999). Privatization of national level sectors covers the first five forms. Privatizing these sectors starts with privatizing a public organization with the monopoly over the provision of a specific commodity and ends with a free and competitive market.

The 'shift' of the production of public commodities from public to private organizations is not expeditious. Instead, according to Van Damme (2004: 8) privatization is a gradual process that consists of three subsequent phases. Each stage is characterized by its own mix of institutional rules and incentives. First, a governmental organization or unit is 'corporatized', or 'placed at arm's length'. The organization becomes a separate legal entity that faces less political control and can operate more in a businesslike fashion. The state remains the prevalent or exclusive shareholder of these so-called state owned enterprises (SOE's). Second, 'asset sale'[1] involves the transfer of shares from state to private parties. Assets can be sold at once, but are more often sliced up in several parts. Third, 'liberalization' implies that the sector is opened up to competitive pressures. Other enterprises are allowed to enter the market and compete with the former public monopolist.

In conclusion, *the shift of the production of goods and services from public to private organizations* is in fact a complex process. It does not merely involve the undemanding transfer of assets and permission of competition. The state gradually relaxes its political and financial control over the sector, yet does not wither away. How the new relationships between state and privatized organization take form and what changes inside these organizations is an empirical question, which will be discussed below.

Evaluating privatization: dealing with multiplicity

The vast body of empirical research draws mixed conclusions regarding the effects of privatization on economical performance. Reviews of empirical studies (see e.g. Domberger and Piggott, 1994) and extensive meta-empirical studies by Hodge (2000) and Megginson

[1] In practice this phase is referred to as 'real' privatization (Van Damme, 2004: 8-9). To avoid confusion with the broader process, in this analysis privatization will only be used in broad terms, so that it can denote any moment or phase in the total process.

and Netter (2001) find on the one hand that privatization in general *can* improve efficiency, profits and financial health of an organization. On the other hand, there are many cases where privatization has failed to achieve these goals. There is no consensus on the crucial factors, which leads to the absence of any general conclusions.

Research on the effects of privatization remains in doubt, because there is no accepted methodological framework for comparison. There is much more to such research than plainly comparing the differences in performance between public and private producers of equivalent goods and services. National civil service systems are constituted of many actors, levels, and linkages. Political, economic, judicial, and social contingencies render it difficult to disentangle and compare the extent, timing, pace, and types of privatization across various countries. Even the question whether an organization has become more efficient and responsive to consumer demands proves to be difficult to answer (Wright, 1994: 33, 39; Starr, 1988). At the moment we lack widely accepted conceptual schemes that help us to identify and compare differences between different cases (Peters, 1996). Therefore, an evaluation of privatization will benefit the most from a multi-dimensional perspective.

The empirical and theoretical multiplicity of privatization requires a multi-dimensional perspective. Evaluations that only emphasize the economical or political effects of privatization are by definition one-sided and incomplete. In general, the pervasive complexity of the public sector always requires a multi-dimensional perspective. Such a perspective embodies several analytically distinct, yet highly interrelated dimensions. Since the study of public administration lacks a comprehensive disciplinary theory, the conceptual challenge of each analysis lies in the explicit integration of these dimensions. By approaching a subject with the notion of 'differentiated integration' an analysis can point out tensions and inconsistencies in the nature of the subject. Such an analysis requires a specific point around which the dimensions can be sensibly integrated (see Rutgers, 2007; Dijkstra and Van der Meer, 2003).

For this analysis, the point of integration is organizational accountability. Accountability is a useful point of reference to study the influence of change in the 'publicness' of an organization (cf. Dijkstra and Van der Meer, 2003). The multi-dimensional model focuses on changes in organizational structures and institutions in congruence with changes in political and economical control mechanisms. As such, it focuses on how changes in institutional arrangements of a sector influence the institutions and structures of an organization, and how that affects the behavior of members of that organization (cf. Bekke et al., 1996: 2). The content of this multi-dimensional model of organizational accountability will be explicated after a discussion of the literature. First, the case study of privatization in the Netherlands will demonstrate that democratic accountability of the privatized organizations is at the heart of the problems privatization creates. Subsequent discussion of the privatization literature will show that the organizational dimensions are by and large neglected. Therefore, I suggest that a multi-dimensional organizational model is needed to fill this cavity.

Privatization in the Netherlands: letting go, holding on[2]

The history of privatization in the Netherlands shows how privatization gradually became more important, as well as more problematic. Four periods of privatization can be distinguished in the Netherlands. In the first period (1982-1986), Dutch government tried to solve the state budget deficit by pragmatically hiving of eight state enterprises. The 1982 governing coalition had to harness the financial legacy of an outgrown welfare state and two oil crises. To reduce the state deficit and heal the economy in general five broad solutions were adopted including privatization and deregulation. The economy was thought to improve by slimming down government in size and spending and creating more room for private organizations in the market. Privatization was not regarded an ideological quest against a large and inefficient state, but a practical solution to administrative and economical problems.

In the second period (1986-1998), the following three cabinets quickly amplified the scale on which privatization took place up to 40 projects. Asset sale[3] raised total revenue of 14.5 billion dollars, which was considerable compared to other European countries. The largest part of the privatization program involved corporatization, i.e. the creation of SOEs. SOEs would be able to develop themselves into stable private enterprises without having the financial risk of sudden bankruptcy. Almost all of the 120,000 employees involved in privatizations (115,000) were involved in corporatizations.

In the third period (1998-2007), despite declining public support government continued to privatize with the motto “private, unless there are good reasons not to do so”. The official privatization program was stopped in 1990, but government continued to increase the autonomy of SOEs. Also, liberalization was further promoted with deregulation

[2] Insights and data about privatization in the Netherlands as discussed in this section are based on a study by Andeweg (1994) and an extensive research report by Van Damme (2004).
[3] This revenue was raised by asset sale of, most importantly, KLM (airline), Hoogovens (steel), and DSM (coal mines), Postbank (bank), and PTT (post and telecom). Some of these organizations were already private so that the state could be sell its assets right away. Note that for each organization the state set a different strategy and commenced privatization in diverse paces.

and increasing competition. Pragmatically the approach to privatization shifted from solving the state deficit to increasing efficiency. Recently, the fourth period has been heralded by the Minister of Finance, who declared that the maxim now has become “public, unless” (De Waard, 2007a and 2007b). It now seems that government will not privatize with the same enthusiasm as before. Reasons are public dissatisfaction and the technical problems that emerged during the formation of free competitive markets.

Table one gives an overview of the current status of privatization in each sector. In general, the further down the table, the more privatized a sector is. The fact that even this simple relationship does not fully apply demonstrates how complex privatization processes are. Four issues deserve particular attention. First, the first three sectors cannot get past the corporatization phase, which will be illustrated with a review of the bus sector. Second, the state is still politically and financially responsible for SOEs, but has less control over them as a shareholder. This tension is illustrated with a discussion of the railways and postal sector. Third, the bottom three sectors face impregnable barriers to full liberalization, which have rendered the realization of the idea of a fully liberalized market impossible. The telecom and electricity sector serve as illustration for this problem. Fourth, all sectors are regulated by competition authorities. However, the power of these regulators is limited.

Sector – Organization(s)	**Stage**	**Market**
Railways – NS and Prorail	Corporatization (100% SOE)	Private monopoly
Post – TPG	Privatization (state golden share)	Private monopoly
Bus – Connexxion and several smaller regional others	Corporatization/Privatization (100% SOE and others are partly SOEs)	Regional monopolies
Electricity – Nuon, Essent, and several smaller regional others	Privatization/Liberalization (SOEs)	Oligopoly quasi-market
Gas – Gasunie and several smaller regional others	Liberalization	Competitive market, regulatory barriers
Telecom – KPN and several smaller national others	Liberalization	Competitive market, dominant enterprise

Table 1. Status of privatization in the Netherlands per sector. Constructed on the basis of Van Damme (2004).

Organizations in the corporatization phase do not face direct governmental control or market pressures. The public bus transport sector consists of several SOE’s and privatized enterprises that have local or regional monopolies. Connexxion (SOE, 100% owned by the state) and municipal organizations in eight of the larger cities carry out bus transport. The latter are reluctant in abiding by the ‘Law on Passenger Transport 2000’ that demands all bus transport organizations to at least corporatize and open up the market. The continuance of local and regional monopolies withholds the development of competition. Government has renounced direct control rights, yet faces an equal level of financial and political risks. Bus enterprises' autonomy is increased without compensation from state or market discipline.

State influence decreases when it becomes shareholder, which is illustrated by the railways and postal sector. Public train transport is facilitated by the 100% SOEs ProRail, responsible for infrastructure services, and NS, responsible for transport services. NS controls the market, because competition on the tracks is not considered desirable by government. The corporatization of NS has considerably improved its efficiency, yet quality of service has not lived up to set standards. Similarly, TPG controls the postal market, because liberalization is believed to be a too great danger for universal postal service. The state still holds 34.7% of the shares in TPG and has a so-called golden share which gives the right to veto particular key decisions.

Shareholder influence is severely restricted by Dutch corporate law (*structuurregime*). The creation of SOEs implies that the legal form of these organizations becomes a limited liability company (NV). This entails that all power lies with the supervisory board, which is entitled to appoint its members on the basis of cooptation and to act in the interests of the firm and not those of the shareholders[4]. If the state wishes to influence the organization it has to impose its goals on the firm by changing the firm's statutes, or by setting up regulatory or contractual obligations. Direct control state diminished, because these control mechanisms prove to be very ineffective in practice. Both the train and postal sector experience problems with the levels of price and/or quality, but the state is less equipped to do anything about it.

Liberalization intends to entail deregulation and more competition. State, competition authority, and privatized enterprises have to find a balance between the envisaged free competitive market and the appropriate level of regulatory and monitoring conditions. The electricity sector is on the verge of a privatized competitive market. In 1998, the Electricity Law proposed gradual liberalization of the market that consisted of four large-scale producers and 23 local distribution companies. At the moment government considers full liberalization impossible. Several mergers have created two large and powerful energy companies (both SOEs in the hands of several regional authorities). This withholds the state from privatizing the grid distribution network, because it is feared that free competition will be frustrated if these two enterprises also control the grid network. Therefore, the energy sector is now

[4] *Kamerstukken II* 2001-02, 28165, nr. 2, 11-13. See also Van Damme (2004: 17-20).

dominated by two private enterprises that closely cooperate with regional state authorities which control the grid network. The prospects for a free competitive market are dim.

Development towards competition for a large part depends on the efforts of competition authorities (NMa for all sectors; DTe for energy sector; OPTA for telecom sector). These regulators have to monitor whether the enterprises abide by competition rules, while government is still responsible for making laws and regulations. Regulators have often complained that they are constrained in their work, because they do not have any real regulatory powers and general rules are vague. Enterprises have ample opportunities to frustrate regulators' authority by appealing that their decisions are based on misinterpretations of the rules or are not based on any formal power.

To sum up, privatization has led to four specific problems in the Netherlands. First, several sectors have got stuck in the phase of corporatization, where direct state control is relaxed and market competition is absent. Second, the state has become a shareholder in all sectors that are not in the liberalization phase. Public monopolies were converted in private monopolies and internal control is executed by the supervisory board and less to the state as shareholder. Third, full liberalization is still regarded impossible or even undesirable in sectors where the monopoly is lifted. Fourth, market regulators are often frustrated in executing control because they have no real power and rules are vague. In a word, responsiveness to consumer demands seems all but secured looking at the external institutional arrangements.

Theoretical debate: exit, voice, and suitability[5]

The privatization literature can be divided into three factions. Each faction puts emphasis on specific motives for privatization as categorized in table two (see next page). First, the public choice school and the property rights school favor privatization by emphasizing economic, consumer, and managerial motives. They contend that economic incentives and market pressures will replace state structures for control of the privatized organizations. After privatization the consumer will control the performance of the organization by 'voting with his feet' (*exit*). Second, several political perspectives take a

[5] Hirschman (1970) described three strategies an individual could follow in response to an organization: 'Exit, Voice and Loyalty'. The theoretical debate on privatization consists of three fractions that can be categorized with a slight modification of Hirschman's book title into 'exit, voice, and suitability'. Apparently, no scholar has yet investigated into the loyalty of consumers to privatized organizations. However, my analysis suggests that consumers may have little choice to stay loyal and docile under the reign of unresponsive private monopolists and oligopolists.

critical stance towards privatization and primarily analyze political and ideological motives. They stress that privatization affects power relations within government and society. Privatization impedes citizens' possibilities to *voice* their dissatisfaction because it affects democratic power and accountability relationships. Third, several scholars take an intermediate position, evenly emphasizing economical and political arguments. They address motives from all categories and argue in favor of a mixed set of institutional arrangements that is most *suitable* to the situation in a specific sector.

Motive	**Aims**
Economic	Increasing efficiency, competition, profits, and quality
Political	Reducing state deficit; better fiscal management; curbing public sector union power; gaining political advantage; wider share ownership
Ideological	Reducing government intervention
Managerial	Increasing entrepreneurialism; rationalizing management structures; improving performance through incentives and autonomy
Consumer	Increasing choice and freedom, quality, prices, and responsiveness to consumer demands

Table 2. Motives and aims of privatization. Constructed on the basis of Marsh, 1993; Wright, 1994; Drakeford, 2000; Hodge, 2000; Feigenbaum et al, 1998; Savas, 2000.

Firstly, the public choice school initiated the scientific debate about privatization (Ostrom and Ostrom, 1971: 212; Savas, 1987). Public choice arguments are still the main thrust of the privatization debate. According to public choice, market institutions are better equipped to satisfy the preferences of consumers than bureaucratic state institutions. Market institutions operate at more decentralized levels and provide more efficiency enhancing incentives, which enhances responsiveness to consumer preferences. Public choice puts great emphasis on consumer sovereignty, i.e. government has to provide consumers with as much goods and services as possible from which they can choose freely (Ostrom, Tiebout and Warren, 1961; Ostrom and Ostrom, 1971: 205-206; see Rothenberg, 1962). Consumer sovereignty is promoted by institutional arrangements that maximize allocative efficiency[6], i.e. Pareto optimality. A commodity is allocative efficient if it makes at least one person better off without making someone else worse off (Le Grand 1991: 425). As such, consumer sovereignty serves as descriptive tool for explaining market behavior in terms of

6 Efficiency is usually employed in the definition of X-efficiency: "the production of a commodity at the minimum possible cost in terms of the resources used" (Le Grand, 1991: 425). Allocative efficiency includes X-efficiency, but also requires Pareto optimality. Efficiency is also be conceptualized in the literature with the adjective social, technical, economic, dynamic, and productive (Van der Meer and Rutgers, 2007).

methodological individualism and as normative standard for evaluating institutional performance[7] (Lowery, 1998: 140).

Privatization is also defended by scholars on the basis of the theory of property rights. This theory holds that efficiency can be reached only by means of private ownership. Property rights embody how the rights to certain benefits and harms are distributed. Private ownership of an organization provides owners with strong incentives to ensure that their rights provide them benefits. If an organization is in private hands, there will be more pressure on the organization to maximize profits and efficiency. Public ownership weakens the incentives for owners to control how their property is used, because the benefits are not returned to the owners (De Alessi, 1987; Coase, 1960; see also Starr, 1988). In a word, according to this theory a sector would become more efficient if the organization that produces goods and services changes its legal status from public to private, because private shareholders would put more pressure on the organization to increase profits and efficiency than the state.

Secondly, several political scientists subject the improvements privatization is supposed to bring to critical scrutiny. Privatization does not only affect economical performance, but also has implications for the political and financial power of specific groups. Feigenbaum and Henig (1994) describe how political elites use privatization as a political strategy instead of improving government performance. Politicians can decide to privatize a sector, because this enables them to avoid responsibility for bad sector performance, or because it benefits partisan groups (see also Feigenbaum et al., 1999). Haskel and Szymanski (1994) investigate how privatization affects power relations among public parties. They provide evidence for the hypotheses that privatization leads to an increase of managers' power, while trade union power weakens and salaries and employment drop. Thus, privatization can be motivated by non-economical reasons that frustrate the process and sector performance.

Thirdly, neo-classical policy analysis and neo-institutional transaction cost analysis directly address public choice theoretically and empirically. The question central to the debate is which institutional arrangement is best suited to optimize the exchange between consumers and producers and minimize externalities. These two approaches emphasize the

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7 This concern about state intervention is inherent to liberal-economic thought, which highly values individualism. Several 19th century British scholars (Mill, Spencer, and Montague) expressed serious concerns about the restrictions bureaucracy would impose on individual liberty. In their view, state intervention was to be refrained from as much as possible, because it posed serious dangers to democracy (see Albrow, 1982: 21-26). From an economical point of view the argument against state intervention in favor of individual liberty has of course been made by Adam Smith (1910).

need for careful consideration of all relevant conditions and empirical analysis of the effects of institutional arrangements and incentives (see Bator, 1951: 378; Le Grand, 1991: 442) For instance, Wright (1994: 23) suggests that any analysis of privatization has to consider the possible influence of “the origins, size, scope, role, organizational structure, financial condition, and pattern of state-sector relations”, party politics, political will of the executive, policy networks, legal procedures, and traditional attitudes towards the role of the state.

Neo-classical policy analysts regard privatization a potential promising development, because it can reduce the transaction costs caused by non-market failure (Moe, 1987; Donahue, 1989; Vickers and Yarrow, 1991; Handler, 1996). They evaluate privatization with competition as their central criterion. Privatization can involve the creation of all too powerful, not democratically accountable, private monopolists. Therefore, direct state control can only be relaxed insofar as it equals the creation of a competitive market. Privatization becomes a panacea if the withdrawal of state control is not compensated by free competition in the market.

Scholars employing a neo-institutional transaction cost analysis perspective do not hold privatization as *ex ante* ideal (Williamson, 1975; Ostrom, 1986; Lowery, 1999). An institutional arrangement has to affect the behavior of the production enterprise as effectively as possible to satisfy consumer preferences. Therefore, the question is not so much about broad institutional arrangements, but about which incentive structure yields the desired results. Efficient satisfaction of consumer preferences is not solely confined to markets; a state may also have an incentive structure that forces efficiency (Rothenberg, 1962: 268). State institutions are not more inefficient *a priori*, nor are markets necessarily less democratic. Privatized sectors operate under a mix of various structures and institutions and can only efficiently satisfy consumer demands if institutional arrangements match sector conditions.

In conclusion, the privatization literature provides useful insights about how to study the institutional arrangements that make up the environment of the privatized organizations. This analysis now goes one step further by focusing on internal organizational dynamics. Organizations cannot be assumed to respond deterministically to its institutional environment. Constructing an organizational framework to evaluate the effects of privatization on the privatized organizations is difficult, because of the confusing public/private conceptual scheme (Pesch, 2005) and the blurriness of privatization processes. To create more clarity, the discussion now turns to a public administration perspective on public and private. This perspective focuses on several organizational public/private dimensions and makes clear that the shift of public to private necessitates a focus on accountability structures and institutions internal to an organization.

Public and private accountability

Although the privatization literature treats organizational performance by and large as a question of external institutions and structures, internal organizational institutions and structures are crucial for explaining organizational outputs. The question is whether the organizational structures and institutions of a public organization lead to different results than those of a private organization. Differences between organizational conduct in public and private organizations are much discussed theoretically and empirically (see e.g. Bozeman, 1987; Rainey, 1989), as are the broader implications for governance and public administration theory (see e.g. Salamon, 1981; Haque, 2001). Herbert Simon (1998) stressed that the degree to which an organization operates efficiently and democratically is the result of organizational institutions and structures. Organizations influence individual behavior through structures and roles. Simon also asserts that differences between public and private organizations should not be overstated, because they basically operate through the same mechanisms.

However, public and private organizations are fundamentally different on one important count. Public law and private law require different structural and institutional requirements regarding democratic control and accountability (Dijkstra and Van der Meer, 2003). In constitutional democracies, any authority is held accountable for an outcome insofar as it has causally contributed to this outcome (Spiro, 1969). Accountability arrangements are structured in a way that an authority lives up to the maxim of the Rechtsstaat: “there is no authority without responsibility and no responsibility without authority” (Dijkstra and Van der Meer, 2003: 99). Therefore, in public organizations financial and democratic accountability are formally described in legal documents. Private organizations do not have to publicly account for its decisions as much as public organizations. After all, goods and services of private organizations do not have a public nature.

However, for privatized organizations the story is different. These organizations are private in legal status, but remain public on other dimensions. Next to legal status Dijkstra and Van der Meer (2003) distinguish the dimensions political control, legal-regulatory powers, legal-economic ownership, and economic funding. The private legal status can conflict with public power. For example, the NS have a private law status and private legal-regulatory powers. It cannot take authoritative binding decisions, but is an equal party to the consumer in a situation of market exchange. The consumer decides whether he will pay for a train ticket or take the car instead. Nevertheless, public transport is subject to public scrutiny, because it has the monopoly power to provide specific public services. The price of train tickets and especially the quality of services is a much discussed topic in the Netherlands. Consumer dissatisfaction with NS performance led the consumer organization to block a planned tariff increase in 2003.

Private legal status also implies a tension with political control. Privatized organizations may be placed at arms length, but are still in a political environment. The NS put part of the blame for low quality of service with the Ministry of Transport, which had not adequately coordinated the agencies responsible for the infrastructure. Train delays were argued to be primarily the result of bad infrastructure. In the bus transport sector, organizations were forced by the minister to make the market more competitive, but have resisted the liberalization of the market by strategically maintaining their regional monopolies in public biddings. The politically responsible minister remains publicly accountable and not the privatized organization. This constitutes a tension, because a private law organization does not formally belong to government and consequently does not fall under ministerial responsibility.

The degree to which an organization is public can vary along each dimension. Privatization entails that an organization changes its legal status from public to private. It can remain public on all the other dimensions. Privatization in the Netherlands shows that privatized organization keep public powers, funding, and/or ownership, yet no public law status. This is problematical, because individuals within these organizations are employed with ample discretionary powers for making decisions that affect citizens without detailed regulation that regulates their behaviour democratically (Dijkstra and Van der Meer, 2003). Public law organizations have accountability arrangements structured according to the public needs and purposes served, while private law organizations have only very specific sets of accountability structures directed at profits. The discussion now turns to see how this is reflected in their internal organizational institutions and structures.

Organizational perspective

No organization can escape its political environment (Bozeman, 1987). In fact, it can be argued that privatization entails governmentalization of the private sector rather than privatization of government (Moe in Rainey, 2003: 121; see also Pierre, 1995). Yet, how an organization deals with the demands from politics and consumers is affected by its institutional and structural arrangements. Focusing on organizational structure points out where tensions can emerge. The question is what remains the same after privatizing and what changes. It is argued that the organizational mechanisms stay the same, but organizational conduct changes in content because of the private law status.

Theories of privatization make three important claims about the organizational implications of privatization (Ostrom and Ostrom, 1971; Savas, 1987). First, privatization means less bureaucracy. State bureaucracies have the natural tendency to grow, while organizations in a competitive market setting are forced to keep in mind whether each added employee does not exceed the cost of managing and paying that employee. Second, privatization means that employees are more responsive to consumers and in general more motivated. State bureaucrats are lazy budget-maximizers constrained by rules and procedures, while employees in private organizations have more autonomy and room for personal development (see Lane, 1987). Third, privatization means better management. Business style management yields better results, because it is more innovative and flexible (see Hood, 1991). These three issues –organizational structure, professional ethos and management– are now addressed on the basis of lessons from the case study of the Netherlands. The discussion suggests how each feature can be used for an empirical assessment of the effects of privatization.

First, it seems unlikely that privatized organizations become less bureaucratic. Bureaucracy means fragmentation of tasks and responsibilities according to specialized expertise, hierarchical lines of authority, and rules for career paths and payment (Albrow, 1982: 40-41). In the Netherlands public organization have changed their legal status to private, but remain monopolists. To be sure, privatization may enable some efficiency gains[8], but bureaucratic organizational structures will not disappear, because privatization is indicated to work only in conditions where information, goals, means, and responsibilities can be clearly defined (see e.g. Handler, 1996). This implies is a need for clear structures of rules and procedures regulating authority, accountability, and communication and for

[8] Privatization offers opportunities for an organization to analyze and reorganize internal structures and processes. Streamlining the organization by, for example, increasing the use of ICT and by decreasing administrative slack may indeed lead to an increase of efficiency. Private organizations have more room for such reorganizations, because they face less specified rules and procedures for public goals and democratic accountability. Nevertheless,

qualified personnel (Rainey, 2003: 421-422). The hypothesis is that privatization does not substantively affect the bureaucratic organizational structure.

Second, privatization does not decrease the need for bureaucratic experts. Transforming a sector into a competitive market implies re-regulation instead of de-regulation. A private enterprise has to rely on the expert knowledge and techniques of their employees to deal with these rules. Bureaucracies consist of professional experts, i.e. individuals with specific duties dependent on facilities and resources provided by their organization. Professionals think out of and are motivated from their specialized rational training (Ritzer, 1975; Albrow, 1982: 41). Professionals, or bureaucrats, can be found equally in public and private bureaucracies. Professionals' background, or ethos, influences the way they think, decide, and act. What distinguishes between professionals in public and private organizations is the content of their professional ethos. Private organizations will be more inclined to hire professionals with a background in business and a focus on profits rather than the public interest. Private professionals have considerable autonomy[9], because public accountability structures and direct government control is restricted in private organizations. When conflicts arise it will be more difficult for politics and consumers to influence the conduct of the organization. The hypothesis is that privatization does not lead to more responsive bureaucrats.

Third, all contingencies that complicate privatization processes and the increased discretion of a privatized organization render the role of managers vital (Rainey, 2003: 423). The case of the NS and bus sector showed how the privatized organizations were highly involved in political games. For managers privatization does not merely imply a change from a public to a private management style. Rather, it means the infusion of private management with political pressures. Setting objectives, priorities, organizational mission, and conduct may become less a question of political decisions and mandate and legislative rules, but that does not imply that these decisions become less political in nature. In a private organization authority and responsibility are more centralized in one person, thereby increasing manager discretion (Allison, 1979). Still, privatization enhances the independent authority of private managers. They operate in the public domain, but are less subject to direct governmental control. Private managers have to account to their supervisory board for efficiency and

[9] It is important to distinguish between bureaucrats operating at the street-level (e.g. bus drivers) and at the policy level. Discretion of policy makers particularly seems a potential source of danger. A bus driver might not care whether he is working for a public or private organization as long as he gets paid. The again, employees are less protected in private organizations which makes salary conflicts and strikes more likely. Consumers are directly affected by such situations.

profits, not to government about public goals. The hypothesis is that privatization increases manager autonomy, but does not reduce the organization's public environment.

To sum up, the main thrust of the organizational perspective is that privatization does not lead to more responsiveness to consumer demands. Privatized organizations are still required to take decisions that affect society and economy while their discretion increases. Organizational structure remains by and large bureaucratic, professional ethos continues to influences employee decisions, and management still has to deal with political issues. Private organizations are therefore likely to remain large, inaccessible, and opaque organizations. What is more, privatization implies a focus on profits instead of public goals, because the private law status entails the absence of detailed public accountability arrangements and accountability to the supervisory board instead of government.

Conclusion

Privatization is a 'Strange Case of Dr. Jekyll and Mr. Hyde' indeed. Privatization intended to enhance the responsive and efficient satisfaction of consumer demands. Instead, privatization is found to imply the shedding away of democratic accountability on public issues to the private –i.e. secretive– realm of business enterprises. The behavior of organizations proves to change less from the one situation to the next. That is, responsiveness to consumer demands is not plainly enhanced when public goods and services are provided by private organizations. These organizations remain very powerful, but are less controlled through democratic structures of public accountability. Thus, privatization proves to be a potion that increases rather than decreases the dominance of Mr. Hyde.

In theory, privatization entails that a sector with a public monopolist is gradually transformed into a free and competitive market. In a privatized sector, responsiveness to consumer demands is greatly enhanced by the presence of market institutions. Market institutions stimulate organizational efficiency and decrease the distance between consumer and organization. The result is that the consumer is sovereign, i.e. (s)he can choose freely from as much goods and services as possible the commodity at his/her preferred level of price and quality.

Conversely, the practice of privatization tells a different story. The case study of the Netherlands taught us that a competitive market was not to equal a decrease in rules or state intervention. Direct state control did decrease with the private legal status of SOEs. Corporatized organizations are focused on the goals of their supervisory board and less on those of their shareholders, of which the state is one. Shareholder control instruments prove to be very ineffective for influencing organizational conduct. Market regulators also find themselves constrained in their efforts to control privatized organizations, because of weak power and vague rules. Decrease of hierarchical control would not be a problem, if market pressures would discipline the organizations in privatized sectors. However, market competition is absent in most sectors and is likely to remain an unattainable goal.

The multifaceted nature of privatization is not adequately understood with existing theories. Contrary to their focus on institutions external to an organization from an economical or political perspective, this analysis is based on a multi-dimensional perspective. An organizational perspective makes insightful why control and responsiveness are problematical in privatize organizations. Traditionally, organizations that provide public goods and services were subdued to public law requirements. Private law does not require all these democratic control structures, rules, and procedures that enforce public accountability. The tension created by privatization entails that the commodities provided remain public in nature, while the legal requirements are private in nature. Privatized organizations are private in legal status, but continue to operate in a public environment. It is problematical if an organization combines public powers, funding, and/or ownership with a private legal status, because individuals in these organizations then have abundant and unconstrained discretionary powers to decide about redistributive policies. It is, then, more difficult to control private professionals autonomy in the case of conflicts. Private professionals, and managers in particular, do not have to account to government or citizens for the effects of their decisions on consumer sovereignty, but to their supervisory board for efficiency and profits. Furthermore, privatized organizations continue to be highly bureaucratic, because of the vast amount of rules and complexity in their sector. As a result, privatization leads to powerful and unresponsive organizations that are focused on profits rather than the public good.

Theoretically, the increasing scale of confusion in theories about state and market (see Pesch, 2005) continues its trend. The relationships between state and privatized organizations entail new modes of governance. Contrary to the initial goal of privatizing government, privatization has rather caused governmentalization of the private sector. Some have explained governance as the withering away of the state. Public bureaucracies are argued to be increasingly replaced by private enterprises which provide goods and services in markets, and decision making is argued to take place more and more in extra-bureaucratic networks with multiple actors (Walsh, 1997). Conversely, governance is also explained as state transformation rather than state decline. Traditional state authority is relocated, but state capabilities by and large remain the same, because the state adapts and develops new forms of control. According to this perspective the question is which policy instruments and organizational arrangements are used to govern (Pierre and Peters, 2000). For privatization, it is the case that the state remains highly involved in privatized sectors, yet at the same time traditional state accountability structures wither away.

Finally, the viewpoint of the consumer has to be emphasized. Consumers have direct experience with privatized organizations on a regular basis. If consumers experience more unresponsive organizations providing public goods and services, they will be dissatisfied with governance, despite improvements in efficiency. Privatization may negatively affect the relationship between state and citizens by diminishing voice ánd exit (cf. Hirschman, 1970; Pierre, 1995). Thus, governance could imply a public domain characterized by a less powerful state and loyal, passive consumers. The degree to which this will happen seems highly dependent on the role of privatized organizations.

As such, the provision of public goods and services is characterized by a split personality. On the one hand, privatization is focused on the benign satisfaction of consumer demands; on the other hand it implies the creation of sinister self-centered organizations. Both in academia and politics we have to start with serious reflection on the true character of privatized sectors. To be sure, there is good and evil in everything, and searching for a straightforward way to split them is likely to end up in disaster. However, we should not stop searching for ways to stop the Hyde-side of provision of public goods and services from dominating.

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