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Stuart Green

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# Governance solutions for municipally owned companies: practical insights from England and Canada

Stuart Green 

University of Durham Business School, UK

## IMPACT

This article provides insights into ‘what works’ in terms of successful governance arrangements for municipal operating companies (MOCs). Some studies, notwithstanding their value as scholarly endeavours, make assertions that lack a direct appreciation of practice. The author’s experience as a co-opted member of local government audit committees and interviews with practitioners provide the basis for the article; elected members, local government officers and those responsible for the management of MOCs might have an interest in its findings and conclusions. In particular, the article offers insights for those with an interest in and responsibility for accounting in and for MOCs. Clarity of purpose, robust decision-making processes and the quality of relationships between politicians and managers were more important than a ‘one size fits all’ approach. Veneration of so-called ‘traditional’ accounting practices fails to reflect the subtlety and nuance needed to operate MOCs successfully.

## ABSTRACT

This article investigates the practical usefulness of governance solutions for corporatized entities. Case studies, including participant observation, were used to collect empirical detail. Face-to-face interaction with practitioners provided insights into ‘what works’ in this context. Cross-country learning is supported by data drawn from organizations in England and Canada, respectively. Clarity of purpose, robust decision-making processes and the quality of relationships between politicians and managers were more important than a ‘one size fits all’ approach.

## KEYWORDS

Accountability; audit committee; corporatization; governance; local government; municipally owned companies; profit-making relationships

## Introduction

Corporatization, the creation of municipally owned companies (MOCs) to deliver local public services outside of the line control of local government bureaucracies (Bel & Fageda, 2007; Grossi & Reichard, 2008; Voorn et al., 2017), is prevalent in many developed economies. The influence of factors such as austerity, market failure and efforts to improve local services has led to myriad organizational forms. These alternative models of provision exemplify Van Genugten et al.’s (2020, p. 1) concept of ‘arm’s-length bodies’: they have a public service purpose, are funded by public money but exercise a degree of independence from local politicians.

It has been suggested that corporatization, notably in England, represents a ‘widespread, field-level change’ (Ferry et al., 2018, p. 478). Some studies, notwithstanding their value as scholarly endeavours, make assertions that lack a direct appreciation of practice; greater emphasis on the practical usefulness of research might enhance its transferability. While MOCs are increasingly prevalent, there is a lack of literature on the governance this type of arm’s-length entity. Knowledge of practical governance solutions for these entities is needed, not least because the nature of MOCs and their location in local government requires reconciliation of different forms of control and accountability (Bergh et al., 2021). Failure to do so presents risks to effective governance in local government; in some cases, this failure has led to considerable reputational damage and financial distress.

This article investigates governance arrangements that support successful corporatization: practical usefulness and cross-country learning are at its heart, with data drawn from organizations in England and Canada, respectively. It contributes to the understanding of practical governance solutions for MOCs and how to manage the risks that arise from the use of these entities. A response to calls for qualitative field studies (for example Voorn, 2021) that address the ‘enigma’ (Voorn et al., 2018, p. 481) that is the governance of MOCs is presented. The literature on governance arrangements in hybridized settings touches on the emergence of separate cultures (Berge & Torsteinsen, 2022), accountability relations (Klausen & Winsvold, 2021) and corruption risks (Bergh et al., 2021). Methodologically, a seven-year ethnography generated much of the empirical detail. Face-to-face interaction with practitioners, immersion in organizational settings and opportunities for close observation of behaviour were enabled accordingly.

‘Light-touch’ theorizing is applied using the concept of publicness. The intersecting fields of public administration (for example Bozeman, 1987; Walker & Bozeman, 2011; Bozeman, 2013) and accounting feature research that utilizes this idea. The former reflects a view of organizations that transcends the public–private dichotomy according to their political and economic authority. In terms of accounting (for example Steccolini, 2019; Bracci et al., 2021), publicness captures wider issues that encompass the generation and reporting of public value (for example Moore, 2014). While the conceptual framing of this study is

purposefully high level, an important contribution to practice is made by using publicness to illuminate how governance arrangements for MOCs might support the generation and reporting of public value.

## Background

### Local government corporatization

Corporatized entities emerged in Canada soon after provision for ‘responsible government’ was set out in 1839: so local government corporatization in Canada is not a new phenomenon. Falkus (1977) recognizes that corporatization in England is also not new, with some local councils using MOCs to deliver services for many years. Nevertheless, reforms grounded in the New Public Management, greater freedoms under the ‘general power of competence’ of the Localism Act 2011 and pressure on local budgets have led to a marked increase in corporatization in the last decade. Andrews et al.’s (2019) study of the drivers of this growth finds, *inter alia*, that financial factors are more influential than service quality or political motivation.

### England

In one sense, Ferry et al.’s (2018) assertion that corporatization in England represents a field-level change is questionable. Reforms that sought to address dramatic population growth, urbanization and extension of the franchise in the late 19th century included provision for corporatization and manifested in, for example, the utilities and tramways companies operated by many local authorities in the early 20th century. Opportunity for corporatization persisted throughout more recent change. For example the Local Government Act 1972 conferred powers on local authorities to engage in activities ‘incidental to their functions’ (Local Government Act 1972, s. 137). Subsequent reforms continued to allow municipalities to develop alternative models of service delivery. Section 2 of the Local Government Act 2000 empowered local authorities to ‘take any steps which they consider are likely to promote the well-being of their area or their inhabitants’. Statutory provision for a ‘power to trade’ by charging for discretionary services, including those delivered through MOCs, was established by the Local Government Act 2003.

The concept of a field-level change finds greater resonance in the ‘general power of competence’ established by the Localism Act 2011 and the ability for local authorities to ‘do anything that individuals may generally do’ (Section 1 [1]). Some five years after the enactment of Localism Act, the 150 principal local authorities in England owned 595 corporatized entities. The number of MOCs, almost all of which were profit-making entities, increased by 47.3% between 2010 and 2017 (Andrews et al., 2019). As noted by Harrison (2019) and Andrews et al. (2019), the extent to which the growth in corporatization, especially the use of profit-making entities, can be solely attributed to the general power of competence in the Localism Act 2011 remains arguable. Other factors, not least fiscal constraints, might be of greater influence than the flexibility afforded by this legislation.

### Governance solutions for municipally owned companies in England

Contemporary guidance on the governance and management of MOCs in England is detailed in *Local Authority Company Review Guidance* (Local Partnerships, 2021) and *Local Authority Owned Companies: A Good Practice Guide* (CIPFA, 2022). Dimensions such as the role of local government as ‘shareholder’, the composition of the board of directors and decision-making arrangements are considered with a view to achieving ‘an appropriate balance between allowing a company the freedom to manage its activities and ensuring that it is accountable for its actions’ (Local Partnerships, 2021, p. 7).

### Canada

Similarity of institutional environment for local government in England and in Canada is axiomatic: the latter is rooted in systems that originated in the former. (Note that, in Canada, local government is known as ‘municipal government’. For simplicity, unless specified otherwise, the term ‘local government’ is used in this article to refer to this layer of government in both countries.) In Canada, local government is a sub-division of provincial government; variations exist between provinces. The provisions of the ‘Baldwin’ Act 1849, and elements of the Constitution Act 1867 that followed, broadly reflected arrangements for local government in England. Changes arose due to population growth, increasing urbanization and economic concerns in the mid to late 20th century. As in England, opportunities for corporatization are a consistent feature of this reform. Examples include the Municipality of Metropolitan Toronto Act 1953, which established responsibilities for local services in the greater Toronto area of York County, Ontario. Developments included provision for the distribution of functions amongst various entities, including MOCs.

Local government is highly varied in Canada. Specific powers and areas of responsibility differ across provinces. Canada has 10 provinces and three territories and, while there are constitutional differences between the two, the terms are used coterminously in this article.

The recent trend in most provinces has been to confer a general power of competence on local government like that provided by the Localism Act 2011 in England. Alberta was the first province to award ‘natural person’ powers to local government, subject to the provisions of the Municipal Government Act 1994. While local governments in British Columbia have had powers to engage in any commercial, industrial or business undertaking since 1976, autonomy more typical of the general power of competence in England was conferred by the Local Government Act 2000 and Community Charter 2003 (s. 185).

### Governance solutions for municipally owned companies in Canada

Guidance on governance arrangements for MOCs in Canada reflects local government’s status as a sub-division of provincial government. Generally, requirements focus on securing approval from and being subject to regulation by provinces. In British Columbia, for example, *Launching and*

*Maintaining a Local Government Corporation: A Guide for Local Officials 2006* addresses 'the options for accomplishing their [a municipal government's] goals and the requirements for approval [by provincial government]'. Recommended governance arrangements include clear definition of responsibilities, accountability and control mechanisms and the avoidance of conflicts of interest. Similar provisions are included in, for example, *Regulation and Governance of Municipally-Owned Corporations in Ontario*.

## Theoretical framework

The intersecting fields of public administration and accounting feature research on corporatization. Conceptual framing for this literature includes institutional theory (for example Grossi & Reichard, 2008), public entrepreneurship (for example Andrews et al., 2019) and principal-agent theory (for example Van Genugten et al., 2020). Given the primacy that this article affords to directly implementable governance solutions, a light-touch theorization is applied, with the concept of publicness being deployed to inform the discussion of findings.

A view of publicness in the public administration literature (for example Bozeman, 1987; Walker & Bozeman, 2011; Bozeman, 2013) presents the concept as an alternative to the public-private dichotomy. Rather than defining organizations in terms of the spaces in which activities take place, publicness reflects a role for accounting in contributing to the generation and reporting of public value (for example Moore, 2014; Bracci et al., 2021). As such, publicness offers a useful approach to develop a fine-grained understanding of the governance of corporatized entities. Management of MOCs requires reconciliation of systems of control and accountability that are different from those in local government. Multiple logics (for example Lapsley, 1988; Berge & Torsteinsen, 2022) might arise in these entities. Publicness also offers a perspective by which the public value created by corporatization might be better understood.

## Methodology

Qualitative field studies (Ahrens & Chapman, 2006) were used and empirical detail was collected from multiple sources. Longitudinal participant observation (Yu, 2020) generated much of this detail. Immersion in organizational settings helped to produce a richly detailed picture. Methodological decisions focused on the need to consider the topic in ways that provided for the investigation of the practical usefulness of governance arrangements. The limitations of a qualitative approach, not least participant observation's lack of representativeness (Langley & Klag, 2019), are acknowledged, as are the implications of the different methods of data collection deployed at the English and Canadian entities, respectively.

## Case selection

Empirical detail was collected from six case organizations: three principal local authorities in England and three equivalent local governments in Canada. Each of these entities had established at least one profit-making company since 2010. All the companies operated in the property

sector. Purposive sampling was applied. Canadian entities were chosen based on the author's professional contacts. The boards of each MOC comprised appointed local politicians and non-executive directors, with the latter in the majority at each company. Shareholder agreements were in place in each case addressing matters reserved for approval by local governments, reporting frameworks and dividend policies. Only one entity did not operate a shareholder committee (these committees are generally responsible for the oversight of MOCs by providing a mechanism by which local governments can interface with and hold their MOCs to account—specific responsibilities typically include approval of business plans, monitoring of performance and appointment of directors).

At all three of the English local governments and two (C2 and C3) of those in Canada, executive directors included representatives from commercial partners. As detailed in Table 1, the financial health of each company was categorized, as at 31 March 2021, as 'strong', 'moderate' or 'failing'.

## Data collection

Data were collected over a seven-year period. The participant observation approach is particularly suited to revealing the 'enigma' (Voorn et al., 2018, p. 481) that is governance arrangement for MOCs and produced a context-rich picture at the three English local authorities. Techniques included face-to-face interaction with practitioners and close observation of individuals in organizational settings. The researcher participated in and observed meetings, informal discussions and other organizational activities. In total, approximately 600 hours of activity were observed between 2014 and 2021. Field notes were taken during or shortly after each event.

Semi-structured interviews (please see Table 2) were the principal source of data collected from the Canadian entities. While not offering as rich an insight as participant observation, such interviews offered access to phenomena as they are experienced by organizational actors and provide flexibility that is useful in under-researched areas (for example Barker et al., 2012). In the present study, they also provided access that would otherwise have not been possible because the author lived and worked in the UK throughout this period.

A total of 24 interviews was conducted over a period of approximately two years. At each Canadian entity, two senior officials and two local politicians were each interviewed twice. Respondents were encouraged to share their 'lived experience' and to provide accounts in their own words. Open-ended questioning and a focus on concrete experiences were utilized. Interviews were conducted online and were between 35 and 60 minutes in duration. Audio-recording, with the permission of interviewees, and transcription were used.

## Data analysis

Data were analysed using an overarching qualitative and thematic approach (for example Miles et al., 2014). A multi-stage analysis was applied with a view to 'selecting, focusing, simplifying, abstracting and transforming the data' (Miles & Huberman, 1994, p. 10). A 'sense of the whole' was

**Table 1.** Characteristics of each municipally owned company.

Entity	Jurisdiction	Established	Policy	No. of other MOCs	Financial health*	Revenue (million USD)	Net assets (million USD)	Shareholder committee?	Politicians as directors?	Commercial partners as directors?
E1	England	2010	Social	7	Strong	39.54	21.34	Yes	Yes	Yes
E2	England	2013	Profit	3	Moderate	44.49	20.23	Yes	No	Yes**
E3	England	2016	Profit	0	Failing	36.87	19.65	Yes	Yes	Yes
C1	Canada	2011	Profit	4	Strong	40.02	11.82	Yes	Yes	No
C2	Canada	2010	Quality	2	Moderate	60.14	33.34	No	No	Yes
C3	Canada	2012	Social	1	Failing	31.70	0.12	Yes	No	Yes

Source: Author.

\*Financial health was assessed using a weighted average calculated using Altman's Model B Z-score model. MOCs with a Z-score of <1.80 are categorized as 'failing'; 'moderate' is used to describe those with a score of between 1.80 and 3.00; companies with a score of 3.00 or above are categorized as 'strong'.

\*\* This MOC has a service-level agreement for specialist support services and consultancy advice with a neighbouring local authority that operated a MOC in the property development sector.

developed using case study reports, and initial categories and key themes were identified within and across the data; frames of observation (Abhayawansa et al., 2018) were then established. Subsequent phases of 'back-and-forth' analysis were then applied with a view to identifying themes that related to the aim of the study and its conceptual framing.

## Findings

Three distinct, yet interrelated, themes emerged and are used to organize this section. Practical governance arrangements that provided for clarity of purpose, robust decision-making and quality relationships were the most important practical governance arrangements for MOCs. Misalignment of governance processes and political rationale, a reliance on homogenous arrangements for the reporting of management information and conflicts of interest create risk and should be avoided. Key findings were consistent across English and Canadian entities.

### Clarity of purpose

Those local governments that articulated a clear overarching purpose for their MOCs appeared better placed to achieve success. Entities E2, E3 and C1 shared a broad rationale of profit generation to support the delivery of other services, as illustrated by the mission statements of E2 and C1, respectively:

*To deliver new housing at pace and scale and facilitate the development of property and land, while achieving financial returns (mission statement, E2).*

*To deliver property development services to the city and generate income to fund services (mission statement, C1).*

Efforts to improve service quality underpinned the creation of C2, the mission statement of which was to 'deliver innovative solutions to transform the quality of property development services in [anonymized name of neighbourhood]'. Socioeconomic aims were pursued by the local governments that created E1 and C3. Eight of the 10 most deprived neighbourhoods in England, as measured by the English Indices of Deprivation (<https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019>), were in the boundaries of the local government set up by E1. One of this entity's policies was to 'substantially improve the standards, choice and management of residential and commercial property, helping to make neighbourhoods thriving and desirable places to live' and E1 was established to pursue this aim. C3 was set up to pursue a similar policy, with this local government including areas that ranked 19<sup>th</sup> and 26<sup>th</sup> (of a total of 54,796 'dissemination areas' or 'neighbourhoods' in the Canadian Index of Multiple Deprivation, 2016).

At the local government that created E1, clear and consistent articulation of political rationale was especially evident. The extent to which this aim was being achieved was subject to regular discussion as a standing item for each of the shareholder committee and audit committee at this entity. The strength of commitment to the political rationale for E1 is exemplified by the following statement:

*It's a big, big issue. [Name of E1] has to succeed and there's a big push to make sure that it does. It's fair to say that there's a real commitment across the [political] board (local politician, E1, field notes).*

**Table 2.** Interviews.

Code	Interviewee	Date of interview one	Date of interview two	Role title	Years of service in local government
<b>Senior officials</b>					
C1SO(1)	Senior official C1	June 2021	January 2022	Chief financial officer	19
C1SO(2)	Senior official C1	June 2021	January 2022	Chief executive	14
C2SO(1)	Senior official C2	June 2021	December 2021	Chief executive	15
C2SO(2)	Senior official C2	July 2021	December 2021	Chief operating officer	14
C3SO(1)	Senior official C3	June 2021	January 2022	Senior financial officer	9
C3SO(2)	Senior official C3	July 2021	December 2021	Chief financial officer	16
<b>Local politicians</b>					
C1LP(1)	Local politician C1	June 2021	February 2022	Councillor	8
C1LP(2)	Local politician C1	June 2021	February 2022	Mayor	19
C2LP(1)	Local politician C2	June 2021	February 2022	Councillor	2
C2LP(2)	Local politician C2	July 2021	February 2022	Councillor	13
C3LP(1)	Local politician C3	June 2021	January 2022	Mayor	3
C3LP(2)	Local politician C3	July 2021	January 2022	Councillor	13

Notes: C1SO(1) & C1SO(2) and C1LP(1) & C1LP(2), respectively, were interviewed together.

Source: Author.



### Options appraisal

As highlighted by Local Partnerships (2021) and CIPFA (2022), objective criteria are needed to evaluate the options that might be pursued to help to achieve a policy. As a senior official from E1 noted, 'we like trading companies, but they're not the only game in town; and nor should they be' [chief executive, E1, field notes]. Notably, this local government used a variety of other arm's-length organizations, including an airport, a refuse collection and cleaning company (both companies limited by shares) and a housing regeneration agency (a company limited by guarantee).

Evidence of 'defaulting' to the use of MOCs was apparent at the local government that established E3. While this organization did not have experience of operating other companies, views were expressed that the options appraisal was influenced by factors other than agreed criteria:

*I suspect that it was really a bit of a fashionable thing, you know? [Name of a neighbouring local government] has one, so we had to have one, too (local politician, E3, field notes).*

The need for a clear rationale as a context for a business case that then informs the development of criteria is self-evident. The criteria applied in the options appraisals that preceded the creation of the two 'failing' MOCs (E3 and C3) exhibited a degree of dissonance in this respect. For example the stated mission of C3 was to 'to deliver high quality and affordable housing to the people of [anonymized name of city]' [mission statement, C3] but the criteria used in the options appraisal by the local government that set up C3 were somewhat generic:

*We believed that we were 'doing things differently'. I think the reality was rather different. I don't think we've ever teased out quite what we were trying to do, so the criteria [that were used in the options appraisal] were never really that good (C3SO[2], chief financial officer, C3).*

A report into the difficulties experienced by E3 included criticism of its options appraisal (*Report in the Public Interest Concerning the Council's Governance Arrangements*). In contrast, appraisals at the two 'strong' entities were fine-grained and, notably, germane to the precise circumstances of the local governments by which they were created.

### 'Mission creep' and institutional blindness

E1 and C1 were created in 2010 and 2013, respectively, and maintained consistency of purpose since inception. In contrast, a feature of the two 'failing' companies was what local politician C3LP(1) described as 'mission creep' (C3LP [1], mayor, C3). The original purpose of C3 was socioeconomic; this remained its stated rationale at the time of the study. However, audit committee discussions at this local government's audit committee focused on this MOC's failure to meet revenue and profit generation targets. The risk register of the local government that created this company also reflected dissonance, with 'failure to generate sufficient returns to meet financing obligations' (Corporate risk register, C3) being recorded as a strategic risk in early 2013.

Similarities between the two failing MOCs in this respect were stark. While the rationale for each company was different, they both evolved a practical purpose that

differed from their initial aims. Manifestation of this dissonance was typified by points from an audit committee: 'several members questioned the inconsistencies in reported financial performance measures for [anonymized name of E3]'. A statement in an informal discussion with a senior official at E3 provides further illumination of this confusion:

*There's a serious lack of clarity about what the company is for. Yes, it can evolve, but at the moment there's a real disconnect between what they're being asked to do and what some elected members think it's [the MOC] for (director, E3, field notes).*

### Dissonance and its impact on practical governance arrangements

Dissonance of purpose also manifested at C3. Original measures of success and mechanisms for the evaluation of performance were framed, overwhelmingly, in socioeconomic terms. Examples include metrics such as 'improved tackling of anti-social behaviour' and 'reductions in reported cases of drug abuse' (business plan, C3). These came to be conflated with and then superseded by financial imperatives. Interaction between the directors of C3 and the shareholder and audit committees at the local government that created this MOC coalesced into a focus on what became a dominant issue: could C3 generate sufficient profits to help to address financial pressures being experienced by other services? Examples of such conflation include 'we need to follow the money. Some politicians think that the social value stuff is key. The reality is very different' (C3SO[1], senior financial officer, C3).

The inconsistency at C3 is striking given that stakeholders must have been aware of this dissonance: a kind of 'institutional blindness' appeared to exist. Given that the financial health of this MOC was categorized as 'failing' since early 2014 (C3 was created in 2012), concern about financial matters was perhaps unsurprising. Nevertheless, the emphasis on financial performance assumed greater prominence over time and discussions came to be dominated by failure to achieve revenue and profit targets.

Alongside evidence of the impact of 'mission creep' and 'institutional blindness' on practical governance arrangements at E3 and C3, an explicit change of purpose was also consistent with poor financial health. Evidence from each of the two local governments at which financial health was categorized as 'strong' (companies E1 and C1) indicates that consistency needs to persist across a medium to long-term time horizon, even when political control of a local government changes. The political rationales for E1 and C1 remained constant, even though political control at each of these organizations changed during the study. As noted by a senior official at E1:

*It can take time for what looks like success to emerge. Often, there's a need for patience and this can be difficult: they [elected members] can be under pressure to get results (chief executive, E1, field notes).*

### Relationships with commercial partners

All but one of the local governments used some form of partnership with a commercial organization to operate their MOCs. Justification for these arrangements was typically framed by the demands of the sector in which these

companies operated and a lack of specialist knowledge of property development in local government. Arrangements with commercial partners varied: local governments E1, E3, C2 and C3 had formal contracts with established commercial organizations from the property development sector; E2 had a service-level agreement for specialist support services with a neighbouring local authority (that, in turn, operated a MOC in the property development sector); C1 did not have any form of partnership.

Contractual specification did not preclude confusion over the nature of relationships between entities. However, and like the fine-grained specification of criteria for options appraisal by the local governments that operated E1 and C1, greater precision was apparent in the relationships between the two 'strong' MOCs and their respective commercial partners. Comments such as 'we can more or less monitor it [performance by the commercial partner] down to the last brick' (director, E1) reflect this clarity. A similar sentiment was expressed by C1SO(2): 'we can keep a close eye on each of them [the property-development schemes undertaken by C1] using what is a huge amount of detail' (C1SO(2), chief executive, C1). Senior officials and local politicians at the local government that set up E3 did not have similar confidence, with one director commenting that 'it's [the performance of the company] a bit of a black hole' (director, E3, field notes).

## Robust decision-making

In this section, the ability to make and implement decisions is considered. Clarity of political purpose was a necessary context for success in this context. Key factors in respect of decision-making that emerged from the evidence included the need for an effective flow of management information, agility of operational processes and sufficiency of administrative capacity (in terms of both the internal management of a MOC and in scrutiny by a local government).

## Management information

Protocols for reporting within companies and between MOCs and local governments were established on creation of each entity. For example the directors of E1 were required to report to a shareholder committee on a monthly basis with similar reporting processes in place at the other local governments that operated shareholder committees. A corollary of the need for effective monitoring was reflected by comments such as:

*There's sometimes a need for us to give them [the directors of E1] a gentle 'dig in the ribs' about that [the reporting of management information] the way we've set it up [the reporting arrangement between E1 and its local government] allows us to do that (monitoring officer, E1, field notes).*

At the 'failing' entities, information did not flow effectively. At E3, the board of directors felt unable to rely on the management information produced by their company; the managers of this MOC also expressed dissatisfaction with the quality of the information with which they were expected to make decisions. Reporting processes at this organization were controlled by its local government, with

managers reliant on resources and systems that were, in effect, outside of their control:

*Members asked why the management accounts for the previous quarter had been amended [and that a small year-to-date surplus reported previously had been corrected and reported as a substantial loss in the most recent management report]. [The managing director of E3] replied that this was due to systemic problems in [name of E3] accounting system [reporting processes were, in fact, designed and operated by the local government that created E3] (E3, shareholder committee minutes).*

## Scrutiny of reporting processes

Effective scrutiny by local governments was consistent with better reporting processes. Examples of practical governance arrangements that expedited such scrutiny included recognition of the risk of poor-quality information at E1 and close monitoring of performance reporting by the shareholder committee at the local government that created C1. The audit committee at the local government that set up C2 was notably influential, since this local government did not operate a shareholder committee. Senior officials sought to compensate for the absence of such a forum by enhancing the role of an audit committee. As C2SO(1) highlighted:

*It's [the audit committee] the real 'powerhouse'. If they [the directors and managers at C2] know that the audit committee is on the case, then it keeps them on their toes (C2SO(1), chief executive, C2).*

For the other local governments (all of which used shareholder committees), the benefits of additional oversight and scrutiny by an audit committee are exemplified by a comment from a local politician at E1:

*You [the members of the audit committee] act as our 'wicket-keeper'! I see you as providing a safe pair of hands that, most of the time, just needs to keep a watchful eye on things 'behind the stumps'. Every now and again, you might need to take a 'diving catch'! But that should be the exception (local politician, E1, field notes).*

For the two 'failing' entities (E3 and C3), consideration by an audit committee only began when these MOCs began to experience financial distress. As C3LP(1) put it 'the audit committee came in to help us [the shareholder committee] fight the fire' (C3LP(1), mayor, C3). At E3, while the audit committee's terms of reference did include provision for oversight of its MOC, risk-based discussion of performance was impaired by poor information. Comments included 'the information just isn't transparent enough' (local politician and member of the audit committee, E3, field notes) and 'it's [the reporting process between E3 and its local government] a complete mess' (co-opted member of the audit committee, E3, field notes).

## Reporting arrangements within municipally owned companies

Internal reporting was especially important when local governments had a relative lack of experience in running MOCs. The local governments that created E1 and C1 operated several other companies and had clear processes for the reporting of performance throughout the administrative hierarchies of these entities. Examples included:

*Yes, it's [the management information provided to budget holders at C1] pretty great (C1SO[2]). It compares very well to what they [the local government that set up C1] produce. If anything, it's better, probably because it's a little more focused (C1SO[2], chief executive, C1).*

Bespoke processes for reporting were used at each of these organizations and at both E2 and C2. Procedures at E1, E2 and C1 extended to integrate internal reporting processes with the information needs of the respective shareholder committees (a shareholder committee was not used by C2). In contrast, internal reporting and reporting to shareholder committees were effectively separated at both E3 and C3. As a local politician and member of the shareholder committee for E3 put it:

*I get the feeling they're [managers at E3] saying one thing to each other and a different thing to us [members of the shareholder committee at the local government that established E3] (local politician, E3, field notes).*

### Agility in decision-making

A need for appropriate flexibility of decision-making was also acknowledged by shareholder committees and, in a broader sense, by the local governments that created E1, E2, C1 and C2 (a shareholder committee was not operated for C2); similar recognition was not apparent at E3 or C3, where managers expressed considerable dissatisfaction at perceived delays in decision-making caused by shareholder committees and local governments. These frustrations were, at least in part, acknowledged:

*There are problems with that [the need for some decisions to be reserved for consideration by the C3's shareholder committee], sure, but those checks and balances are there for a reason. [Name of C3] exists to deliver for the city [the local government that set up C3], not the other way around (C3LP[2], councillor, C3).*

It was typical for some tension to exist between the broader governance frameworks within which local governments operated and arrangements for MOCs. The more successful entities seemed better able to manage these difficulties. At E1, the chief financial officer of the local government that established this MOC and the managing director of the company led joint biennial reviews of its administrative structure. Financial and performance benchmarks (that were subject to approval by the shareholder committee) were used to inform these reviews:

*It's the objective data that helps them [the chief financial officer and chief executive of E1] to evidence that [the suitability, or otherwise, of the administrative structure of E1] (local politician, E1, field notes).*

Similar processes were applied at E2, C1 and C2, with those at C1 including review by senior officials from a neighbouring local government.

### Administrative capacity

Information flows and agile decision-making at all the MOCs were influenced by administrative capacity. Other than the two organizations categorized as 'strong', the greatest number of FTE staff were employed by at C2—a probable consequence of this being the only entity that was not supported by a partnership with a commercial provider. In

terms of expenditure, the largest absolute and relative amounts were incurred by E1 and C1.

At the MOCs classified as 'failing', staffing establishments and expenditure were notably lower. Commitment to administrative capacity at the 'strong' companies is reflected in statements such as 'there's no getting away from it: you need to invest in your MOC and in your [local government] for if you want to succeed. Whether you've got the money is another matter!' (local politician, E1, field notes).

Access to knowledge and expertise was influenced in all cases by partnerships with commercial organizations. The potential for partnerships to contribute to administrative capacity and, more generally, to robust decision-making is typified by the following statement from a senior official at E1 'a real opportunity for added-value comes from working together [with a commercial partner]' (director, E1, field notes). Several respondents noted that commercial partners made important contributions to decision-making, especially when local politicians and senior officials lacked experience of in a particular sector.

### Quality of relationships

The importance of relationships between local politicians, senior officials, managers and commercial partners would seem to be obvious, not least in realizing both clarity of purpose and robust decision-making. Multiple logics existed within the political, administrative and commercial domains, a feature that is consistent with the concept of publicness (Bracci et al., 2021).

### Definition of roles

Detailing of skills, qualifications and other attributes provided an objective basis against which prospective candidates for directorships at these companies were evaluated against these definitions. Subsequent arrangements included regular appraisal of the performance of directors and managers, with these appraisals being of particular importance when the tenure of non-executive directors was subject to renewal:

*They're [non-executive directors] absolutely key to success. It gives us a chance to access knowledge that wouldn't otherwise be there. The best non-execs also give us [executive directors] a good 'dig in the ribs' when necessary (managing director, E1, field notes).*

Exposition of responsibilities should also be subject to effective oversight. If, as occurred in E3 and C2, respectively, individuals with roles in both a local government and a MOC then leave one of these posts, continuation of the other needs to be reconsidered. As a senior official at the local government that created C2 put it:

*There's a need to keep an eye on things to ensure that conflicts of interest and other problems don't emerge. Even if checks are applied when they [local politicians and managers] are appointed, the way things change mean that they might come up in the future (C2SO[2], chief operating officer, C2).*

Five of the six companies employed their non-executive directors on fixed-term contracts (E3 was the exception). The importance of these arrangements is reflected in a comment by a senior official: 'they've [procedures for reappointment] got to be clear. A MOC can change and



what [a local government] needs might change. You've got change, when needed' (C1SO(2), chief executive, C1).

### Conflicts of interest

The most common source of a potential conflict of interest was when local politicians or senior officials also assumed roles within MOCs, most notably as non-executive directors or managers, respectively. One of the successful companies made appointments with an explicit view to avoiding such conflicts: 'it's [avoidance of conflicts of interest] kind of a rule here. We simply don't do it' [C1SO(1), chief financial officer, C1].

In circumstances where separation of duties was not feasible, governance arrangements were in place to promote clarity about the capacity in which individuals were acting. For example the company secretaries at E1 and E2 also fulfilled the role of monitoring officer at their respective local governments. The terms of reference of various forums (including audit committees) at these organizations included clear requirements for the declaration of conflicts of interest. Those at the audit committee of the local government that established E1 required that 'declarations of interest and conflicts of interest shall be made at the start of each meeting' (C2, audit committee terms of reference).

Potential conflicts of interest were seen as justifiable when skills were at a premium. Examples include the shared duties of employees at C2 and its commercial partner: two senior managers at this MOC were seconded from their company's partner organization. Recruitment of employees with the required levels of expertise was also seen as imperative:

*Saving money is useful, but this [joint appointment by the MOC and the commercial partner] was more about skills. It was the easiest way for the city [the local government] to leverage the skills and experience that are needed for [name of C2] to be a success (C2LP[2], councillor, C2).*

Less direct examples of potential conflicts included the provision of strategic advice to the board of C1 by the chief financial officer of the local government that created this company. This senior official chaired a quarterly financial oversight meeting attended by the respective finance managers of this organization's MOCs. Close working relationships with managers at C1 were considered to be essential.

### Compensatory controls

The use of 'ethical walls' went some way to mitigation of conflicts of interest at several of the entities. Illustration is provided by evidence from E1 and C1: non-executive directors at the former were drawn from local politicians and businesses in the property development sector. The shareholder committee of the local government that created E1 also comprised other elected members, with a chair from an unrelated sector. Similar arrangements were deployed at C1, albeit with a shareholder committee chaired by a local politician.

At both E1 and C1, senior officials liaised between shareholder committees and MOCs. While shareholder committees exercised oversight, senior officials were given delegated authority to address operational issues. Examples include regular scrutiny meetings at the local government

that established C1. Separation between membership of shareholder committees and the boards of each company were maintained at all but E3 and C3, where governance solutions reflected a lack of clarity and confusion regarding the extent of delegated authority. As a non-executive director put it during a meeting of the audit committee:

*[The non-executive director of E3 who had been invited to present an item at the audit committee of the local government that created E3] stated that without this [clarity of responsibility and authority], moving beyond the company's current position was considered to be problematic. It was suggested that a base understanding of the respective functions of each organisation was a prerequisite for addressing the issue (E3, audit committee minutes).*

Audit committees provided what a senior official at E2 described as 'an additional layer of defence' (chief internal auditor, E2, field notes). Knowledge that oversight was being applied was consistent with the development and maintenance of better-quality relationships. A statement by the monitoring officer of E1 encapsulates a view expressed at several entities:

*You really need both [a shareholder committee and an audit committee]. The first can focus on the company; the second can keep an eye on the shareholder committee. It sends a nice, clear message to everyone: there are several sets of eyes scanning the horizon to keep it [E1] on track (chief financial officer, E1, field notes).*

A summary of key findings is presented in [Table 3](#).

## Discussion and conclusions

The present article investigates the 'enigma' (Voorn et al., 2018, p. 481) that is the governance of MOCs. It responds to calls for qualitative field studies that address practical governance arrangements for successful corporatization: cross-country learning and practical usefulness are at its heart. Some research, while valuable as a scholarly endeavour, includes assertions that lack a direct appreciation of practice. Corporatization is neither new nor, particularly in Canada, representative of a field-level change. There was little qualitative difference between practical governance arrangements for MOCs in England and Canada. In this study, immersion in organizational settings and face-to-face interactions with practitioners helped to generate a context-rich and multi-layered picture. A seven-year ethnography produced much of the empirical detail.

By way of the concept of publicness, there is a need to consider governance arrangements when organizations are defined in terms of the spaces in which activities take place (for example Walker & Bozeman, 2011; Bozeman, 2013), rather than their position relative to a public-private sector dichotomy. Publicness in accounting and accountability practices (Steccolini, 2019; Bracci et al., 2021) encompasses a role that addresses the generation and reporting of public value. Governance solutions, irrespective of a MOC's position in the public-private 'space' (and the ownership arrangements that inform such positioning), need to reflect local democracy, provide for acuity of purpose, and underpin robust decision-making. Accounting can help to not only transcend the public-private dichotomy; it can also support the creation and reporting of public value. Other dimensions of governance were contingent on the

**Table 3.** Summary of key findings.

Entity	Jurisdiction	Policy	Financial health	Clarity of purpose*	Robust decision-making**	Quality of relationships***
E1	England	Social	Strong	Strong	Strong	Strong
E2	England	Profit	Moderate	Fair	Strong	Fair
E3	England	Profit	Failing	Weak	Weak	Weak
C1	Canada	Profit	Strong	Fair	Strong	Strong
C2	Canada	Quality	Moderate	Fair	Fair	Strong
C3	Canada	Social	Failing	Weak	Weak	Weak

Source: Author.

\*As expressed by coherence of options appraisal, 'mission creep'/institutional blindness, dissonance of purpose and relationship with commercial partners.

\*\*As expressed by flow of management information, scrutiny of reporting processes, reporting arrangements within MOCs, agility in decision-making and sufficiency of administrative capacity.

\*\*\*As expressed by clarity of role definition, conflicts of interest and compensatory controls.

quality of relationships between politicians, senior officials and managers. Again, accounting can contribute to the quality of these relationships.

Turning to key findings, clarity of political purpose, alongside a long-term commitment to achievement of this purpose, was consistent with better performance. There was a need, especially by local politicians, to commit to the realization of the overarching purpose of a MOC: success (at least as measured in financial terms) depended on such commitment. Inconsistency of aim and practical implementation influenced governance arrangements; the 'mission-creep', and 'institutional blindness' that manifested at E3 and C3 might be a factor in poor financial health.

Like the need for acuity of aim, clarity of criteria for options appraisal were important in all cases. Proclivity for a 'one size fits all approach' to governance appeared to be inappropriate: using MOCs as a default approach was not a guarantor of robust financial health. It was notable that E1 and C1 both operated several other arm's-length entities, including companies. Experience of using MOCs was less well-developed at E3 and C3. Notwithstanding the risks of operating several companies (Bergh et al., 2021), knowledge developed from running other MOCs might go some way to supporting success.

In terms of decision-making in and reporting by MOCs, and consistent with Klausen and Winsvold (2021), simple adoption of processes from local government was ineffective. At E3 and C3, decision-making and reporting arrangements were borrowed from those used by respective local governments: these proved to be ineffective for use in MOCs. Reporting mechanisms should be coherent with the overarching purpose for which a MOC is created. Efforts should be made to satisfy the information needs of managers, shareholder committees and the broader stakeholders in local government.

Even though clarity of political rationale and robust arrangements for decision-making and reporting were important, the quality of relationships between local politicians, senior officials, directors and commercial partners had the greatest impact on success. Without such quality, other aspects of governance were undermined. Careful consideration of role and person specifications for senior posts in MOCs provides an opportunity to identify potential difficulties within a company and, moreover, between local governments, commercial partners and MOCs.

Relationships can be negatively affected by conflicts of interest. Where separation of duties cannot be realized, clarity about roles and responsibilities should be promoted. Shortages of skilled employees, financial constraints and the need to access specialist knowledge created tension.

Compensatory controls such as the 'ethical walls' deployed by E1 and C1 can help to mitigate potential conflicts of interest. Audit committees should monitor the risks arising from these potential conflicts.

Returning to the notion of publicness, as Moore (2014) argues, different conceptions of public value, opposing views on the 'correct' positioning of public services, the nature of interactions between organizations and alternative views of democratic accountability might affect and be affected by accounting, not least when public services are delivered outside of the line control of local government bureaucracies. Accounting and accountability practices need to be sensitive to such differences and the tensions that they can create. As Brackley et al. (2021) argue, MOCs need not be anathema to the generation of public value. Veneration of 'traditional' public administration approaches vis-à-vis so-called 'neoliberal' accounting technologies (for example Closs-Davies et al., 2021) fails to reflect the subtlety and nuance needed to operate these entities successfully. It also risks the destruction of the very public value that might be generated by MOCs. Inappropriate accounting and governance practices can create undesirable consequences in terms of identity conflict (Berge & Torsteinsen, 2022), accountability relations (Klausen & Winsvold, 2021) and so-called 'social justice'. Equal, if not greater, damage can be caused by dogmatic adherence to inappropriate conceptions of public value.

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## ORCID

Stuart Green  <http://orcid.org/0000-0002-5641-5024>

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*Stuart Green is a qualified accountant. He teaches at the University of Durham and his research interests coalesce around the ways in which accounting affects organizational micro-practices.*