

COMPETITIVE CONTRACTING FOR PUBLIC SERVICES: A COMPARISON OF POLICIES AND IMPLEMENTATION IN DENMARK AND SWEDEN

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ABSTRACT

This article compares and analyzes the paths of development of competitive contracting for public services in two Scandinavian countries, Denmark and Sweden. The Scandinavian welfare states have for a long time been dominated politically by Social Democratic Parties in government, emphasizing the virtues of in-house delivery of public services. The impression could be that little or no contracting is taking place. To the contrary, both countries have a long history of contracting for public services and have also been debating and implementing policies of competitive contracting since the 1980s.

INTRODUCTION

Contracting for public services is not a new phenomenon; it has been a common way to organize public services for centuries. It has however increased in recent years, as policies of competitive contracting have been implemented in many countries. The outcome of the policies has been widely debated (Deakin and Walsh 1996, Rhodes 1994) but there seems to be a general recognition of contracting as a specific style of management (Bryntse 2000a,b). Domberger and Hall refer to Australian and New Zealand experiences as involving “fundamental changes in management style and philosophy, characterized by greater use of market forces, competition and formal contractual transactions.” (Domberger and Hall 1996:145)

Most of the published research about contracting in the public sector has been focusing on experiences in Anglo-American countries such as USA, UK, Australia and New Zealand (Kettl 1993; OECD 1997). In this article we will however compare and discuss the paths of development in two Scandinavian countries, Denmark and Sweden. The Scandinavian welfare states have for a long time been dominated by Social Democratic Parties in government, emphasizing the virtues of in-house delivery of public services. The impression could be that little or no contracting is taking place. On the contrary, both countries have a long history of contracting for public services and have also been debating and implementing policies of competitive contracting since the 1980s.

Denmark and Sweden are generally regarded as having similar institutional structure with strong local and regional governments and a high degree of welfare services provided by regional and local authorities. In Denmark, there are 275 local authorities (municipalities), and 14 regional authorities. In Sweden, there are 289 local authorities and 24 regional authorities. The local governments in both Denmark and Sweden are highly autonomous, with stated rights for local taxation. The decision to contract out services lies with each local or regional authority. Although there are many similarities

between the two countries there are also differences in terms of economic factors, national culture and industrial structure. Denmark suffered an economic recession in the early 1980s, but has then recovered, and the economy was booming in the 1990s. Sweden did well economically in the 1980s, but experienced an economic recession in the early 1990s, from which the country only recovered in the late 1990s. There are significant differences in national cultures. The Swedish culture is regarded as administratively oriented, characterized by long-term-planning, consent-seeking, conflict-avoiding, law-abiding and with stable social structures. The Danish culture has been characterized as commercially oriented, improvising, with quick decision-making and flexible social structures (Alvesson, Henriksson and Lind 1999, Boye 1999).

There has been a significant development of competitive contracting in both Denmark and Sweden in recent decades, and in this article we will explore the similarities and differences in the implementation and transformation processes. We are interested in how the general management concept of competitive contracting has been adopted in the two countries. Specifically, we will compare the expressed purposes, the institutional actors, the means of implementations, the reported outcome and the pace of development. We will discuss possible explanations to different and similar patterns, using a theoretical framework of sociological institutional theories.

We have used various empirical studies of contracting in mainly local authorities, as well as white papers, evaluation reports and articles. It should be stated however that a comparison of policy implementation in two countries always has its flaws. You cannot find exactly the same data categories and there might be different meanings associated with similar categories. There is also different access to data. Still, we believe that a comparative analysis can give some contribution to the research on how public management concepts are chosen, implemented and transformed in different institutional contexts.

We will first give a brief introduction to our theoretical framework, and then proceed to examine the implementation of competitive contracting in Denmark and Sweden. In the end we summarize and discuss some general conclusions concerning the diffusion and adoption of management concepts in two different institutional contexts.

INSTITUTIONAL THEORIES OF CONCEPTUAL DIFFUSION AND TRANSFORMATION

Sociological institutional theories are based on the assumption that human beings need to conform to legitimate behavior in a societal context. It is argued that organizations follow fashionable trends of management concepts and chose governance forms according to what is seen as legitimate in the context of the organization. Sometimes organizations implement and keep governance structures that are inefficient for the specific tasks (Powell and DiMaggio, 1991:25). This argument is in contrast to economic institutional theories, where it is assumed that governance structures are chosen and implemented in a calculated, rational way, guided by economic arguments of efficient production. In transaction cost theories the need to calculate on transaction costs is added, as for instance the costs of writing, monitoring and enforcing a contract. The argument in these theories is that governance structures are chosen to minimize

transaction costs and that different governance structures are needed for different types of tasks (Williamson 1975, 1991, 1996).

In sociological institutional theories the view of pure economic rational choices is challenged and they emphasize instead the importance of the institutional context, as expressed in national legislation, culture, polity systems, established belief-systems, practices and norms. (Powell and DiMaggio, 1991, Meyer and Rowan, 1977, Hall and Taylor, 1996, Whitley, 1992, Whitley and Hull Kristensen, 1996). According to these theories certain myths and norms of efficiency dominate an *organizational field* or *sector* (Meyer and Rowan, 1977; Scott, 1995), and are diffused by management consultants, educators, media and other fashion-setting communities (Czarniawska and Sevón, 1996). Czarniawska and Joerges (1996) argue that ideas "travel around" and many organizations introduce the same type of concepts in the same era. It is however also assumed that several conflicting institutional fields can influence the processes of implementation of a concept (Oliver 1990, Powell and DiMaggio, 1991). "We must add that the creation and implementation of institutional arrangements are rife with conflict, contradiction and ambiguity ... different institutional logics challenge each other." (Powell and DiMaggio, 1991: 28). This view is in contrast to the economic institutional perspective, where it is assumed that governance structures are chosen and implemented in a calculated, straightforward way, guided by economic arguments of efficiency.

According to sociological institutional theories travelling management concepts challenge established institutional contexts and has to be adopted through a local transformation process into a local context with conflicting institutional belief-systems. New concepts are constructed in interaction with already established perceptions (Czarniawska and Joerges, 1996). The way ideas are presented has to conform with what is seen as legitimate at a certain point of time and place. "We cannot perceive something unless it somehow relates to what we already know". (Czarniawska and Joerges, 1996: 27).

From a sociological institutional perspective the process of adopting new management concepts could hence be interpreted as a recognition of general, fashionable ideas of management, diffused by researchers, consultants, industry associations etc., which are implemented and transformed by conflicting institutionalized stakeholders in interaction with established cultural perceptions, norms and beliefs.

In the next section we will analyze the processes of implementing policies of competitive contracting in Denmark and Sweden. We will explore and compare the expressed purposes, the actors, the means, the outcome and the pace of time of the processes. After that we will discuss some of the findings according to the assumptions of the sociological institutional theories.

COMPETITIVE CONTRACTING IN DENMARK AND SWEDEN

The History and Prevailing Practice of Contracting

Contracting for goods and services in the public sector is not a new phenomenon. It has been practiced all over the world for many centuries (Andersen, 1997, Bryntse 2000a, b, Peters, 1996). In Denmark, examples of contracting for public services go as far back as to the 16th century where "the best buy" was a common way for the King to have his projects carried out (Andersen, 1997). The contracting policies were however sometimes a matter of debate. The King was for instance once accused of having accepted a cheap offer without considering the quality of the service, when a fire broke out in the castle of Christiansborg in Copenhagen, caused by imperfect cleaning of the firestows by the contractor. In Sweden it was also common for the Kings to contract for supplies. Before contract laws were established the fulfillment of contracts however had to be ensured by other means than legal procedures. The Swedish King Gustav Vasa issued a decree in the 16th century to a supplier, who had failed to provide for an order of armor suits and arrowheads:

At the peril of having your heads fall to the axe, to the amusement of the inhabitants of Stockholm, in the city square one holiday eve at my discretion, I once again command you to comply with my wishes. (Quote taken from Gadde and Håkansson, 1993: 1).

In both Denmark and Sweden, contracting has in the last century been a common feature in construction work, streets maintenance and garbage collection, especially in small authorities which do not have adequate competence or facilities to perform the services by themselves (SPK., 1992). Contracting for social services has however not been a common practice in neither Denmark nor Sweden. It has not been considered legitimate in the social welfare states to contract out the care of vulnerable citizens to private companies running for profit. In 1990, the proportion of residential care run by private companies in Sweden was for instance only 1% (SPK, 1992). A well-known exception of contracting for welfare services in Denmark is however the fire and ambulance services, which have been contracted out since the beginning of the 20th century (Refhuss, 1989:259). The entrepreneur Sophus Falck established a company in 1906 for private fire brigades, ambulance services and road maintenance services. It invested in the first automobile ambulance in Scandinavia. In 1980 it delivered fire-fighting services to 68% of the Danish municipalities and covered 98% of the ambulance services in Denmark (ibid). *Falck* is still a privately owned company with 10.000 shareholders (Falck, 1998). The company had a turnover of 5 million GBP and employed 15.000 employees in 1997. In 2001, it runs roughly half of the fire service and ambulance services in the Denmark, and has not had any serious private sector competitors. It has also expanded its business into the social welfare market.

Summing up, contracting has not been adjacent to public authorities in Sweden and Denmark and has been practiced in many services, with the exception of most social services. It has however not been practiced in a competitive manner with frequent exchange of contractors. Contracts have rather been negotiated with a preferred supplier and usually prolonged for decades (SOU, 1991: 26). The contract relationships were stable and long enduring and could be characterized as on-going partnerships without

competitive threats. The concept of managing services by contract was hence not associated with concepts of competition. It was rather a way of obtaining benefits of large-scale operations, since private contractor companies could serve several municipalities.

A New Era of Competitive Contracting

In the end of the 20th century, new ideas of competitive tendering for public services were launched in public choice theories and introduced in large-scale policies in Anglo-American countries, e.g. the US, UK, Australia and New Zealand. The ideas developed from a widespread criticism against the public sector of being inefficient, bureaucratic and lacking responsiveness to individual needs. The new ideas were also in line with general changes in the global society, e.g. new information technology, more individualized values and increased competition due to globalized trading and deregulation.

In both Denmark and Sweden the debate concerning the efficiency of public services started in the 1980's, after decades of stable Social Democratic rule. In both countries mixed governments then came into rule with weaker political majorities, reflecting a change in dominant belief-systems. In Denmark, policies of increased competition and contracting was put on the agenda by Conservative governments in the 1980s, but protests arose from the Social Democratic Party and the trade unions, claiming that social rights were threatened. Being a minority government, the conservative government was not able to withstand the pressure and contracting out was laid to rest for the next 6-8 years (Andersen, 1997; Andersen, Greve and Torfing, 1996, Greve, 1997).

In the beginning of the 1990s the ideas of competitive contracting were however revitalized in Denmark with a White Paper from a special, corporate commission published in 1991 (Betænkning, 1227, 1991). In this paper the essential principles of the future development were established. One important principle was, "Public tasks should be carried out where it can be done "best and cheapest", regardless of whether it is in the public sector or in the private sector". In addition, the White Paper stated a support for both competition and co-operation between the public and private sectors. Several criteria for contracting out services was suggested, as for instance that the tasks could be specified in detail, that comparisons of costs could be made with in-house bids, and that competent contractors were available with a guarantee for quality. The White Paper also emphasized that public sector organizations should retain in-house expertise to be able to evaluate future bids.

In Sweden, the ideas of competitive contracting was put forward in the end of the 1980's by the Social democratic government, inspired by developments in the UK and USA. Several white papers discussed the benefits of increased competition and the need to provide citizens with more choice of providers. Different kinds of barriers to competition were discussed (Bryntse, 2000a). One of the identified barriers was the Law of local government, in which local authorities were defined as responsible for the delivery of public services. This was interpreted as if it was not allowed to contract out public services. Another barrier was the accounting systems which made it difficult to calculate the true costs of in-house services, especially over-head costs. External

contracts therefore seemed to be much more expensive than in-house delivery. Finally the rules for VAT taxation also made it more expensive to pay external contractors for services. The Law of local government was changed in 1992 to remove the above mentioned barriers, and this was seen as major step towards a new style of management of public services.

Contracting out of public services then increased rapidly in Sweden in the beginning of the 1990s, also due to a shift to conservative government and a major economic crisis which created an urgent need for cost reductions in the public sector. A conservative coalition of political parties came to rule in both the central government and in a majority of the local authorities between 1991-1994. This led to a stronger emphasis on the benefits of competition to achieve cost reductions and more individual choice in public services. A proposal for a new law of public procurement was put forward by the Conservative government in 1993, requiring compulsory competitive tendering for most government services, strongly influenced by the CCT-directives in the UK. The proposal was however heavily criticized by both the local authorities and the private sector and was withdrawn. At the same time the EC directives of public procurement had come into rule in the EU-countries.

The EC-directives were included in a new Swedish Law of public procurement, which came into rule 1 January 1994, as Sweden joined the EES-treaty. The Swedish law is however more far-reaching than the EC-directives, with a separate chapter requiring competitive tendering procedures also for small amounts and for all kinds of public procurement including social services. It is however still up to the local authority to decide whether to contract out or not. The law applies to all kinds of procurement for public services and to all kinds of public sector organizations. An important change in the new procurement law is the right for bidders to complain and be compensated, if the prescribed tendering procedures have been violated by the public authorities. This possibility has been used widely by bidders and many authorities have been obliged to pay substantial fines for violating the law.

In Denmark, *central government* organizations are required to consider contracting out for all tasks judged as appropriate every second year (Ministry of Finance, 1994, 1996). This requirement does not apply to local authorities, since it would be seen as an intrusion to the principle of autonomous local government.

In the process of implementing competitive contracting policies in Sweden there was an agreement between the conservative government and the Association of Local Authorities that the latter should encourage competitive contracting by providing guidelines, offering training, developing standard contracts, etc.. The policies, legislation and guidelines altogether resulted in a general rise of competitive contracting in the Swedish local authorities in the 1990s, especially in social services.

In the mid-1990s, another shift in political majority came about in both Denmark and Sweden. There was again Social democratic majority in the central governments, and in most local authorities. The extensive policies for competition and cost reductions in the Swedish local authorities were replaced with more emphasize on quality and co-operation. The procurement legislation was changed several times to reflect a higher emphasis on quality criteria (Bryntse, 2000a). In Denmark however, the debate was

heated throughout the 1990s, although with increased initiatives of contracting out services in local authorities. The development was partly inspired by the development in Sweden, but with more limited impact in terms of the extent of services contracted out (Ugebrevet Mandag Morgen, 1997; National Association of Local Governments, 2000). A general impression in Denmark was that the process of implementing competitive contracting in public services was “5 years after” Sweden (Ugebrevet Mandag Morgen, 1997).

Summing up, it can be stated that both Sweden and Denmark were influenced by international, predominantly Anglo-American trends, transmitting general concepts for a new style of management of government services. The adoption of new concepts seemed to coincide with a change in political majorities and dominant value-systems, with more influence for conservative political parties. The time schedule of adoption of the new concepts was slightly different in the two countries, with Denmark taking the first steps in the 1980s, however with a slow development. The development in Sweden started later, in the beginning of the 1990s, but with a more rapid pace, probably due to an economic crisis. Denmark reintroduced the ideas of competitive contracting in the late 1990s, partly inspired by Swedish experiences.

DIFFERENT PURPOSES, ACTORS AND MEANS

The implementation of the concept of competitive contracting was advocated by many different institutional stakeholders on different levels with different purposes within and outside the two countries (Bryntse, 2000a,b). The European Union has been an influential actor by issuing several directives for public procurement in the early 1990s, with the specific purpose of increasing the cross-country trade within Europe. The EC directive on the procurement of services (92/50/EØF) of 18 June 1992 requires open tendering in the whole of EU for public procurement above a certain amount (137.537 ECU), with compulsory advertising in the Official journal. The directives apply to both state and local government administration. The national legislation in both Sweden and Denmark has been aligned with these directives.

The Danish and Swedish policies of competitive contracting have been influenced by several different national purposes. In Denmark, at least six different strategic purposes have been identified in the debate (Andersen, 1996) and even more can be traced historically (Andersen, 1997). The Ministry of Finance regarded contracting out as a component of *modernizing* the organizational structure of the public sector. The Ministry of Trade and Industry (1997) argued for strategic contracting out as part of an industrial policy for partnership between the public and the private sector to *promote export opportunities* in the service industry. Danish local governments on the other side considered contracting more as a pragmatic tool for *cost reduction*, and to provide *more choice to the citizens*. A continuing discussion on the merits of contracting out has been taking place within the Social democratic party in Denmark. The Danish Prime Minister, Mr. Poul Nyrup Rasmussen (Social democrat) wrote a letter to the Social Democrats in local governments, emphasizing the negative aspects of contracting out social services. Recent government publications have however encouraged further steps to contracting out (State Council for Contracting Out, 2000). The Danish minister of Finance, Mr. Lykketoft, also a Social Democrat, now encourages new forms of

organizing in the public sector, including contracting out, as a non-ideological, administrative tool. There is however still a skeptical view in the Social Democratic Party concerning the contracting out of social services, which was confirmed in the parties Annual Congress in 2000.

Since the Danish economy was in a healthy state in the 1990s, cost reduction was not expressed as a main purpose in the policies for contracting out public services. Instead, the Social Democratic government stressed the need of co-operative public-private partnerships with an emphasis on quality. One common argument in the launch of the policies was to open up for more private sector involvement in public sector services, and thereby to promote the development of the service industry in the private sector.

In Sweden the need to obtain rapid cost reductions and increased citizen choice seemed to be the most dominant purposes in the contracting policies, although citizen choice was more emphasized by the Conservative parties. In Sweden there was also an expressed purpose to create new roles for politicians, with more strategic focus and less dealing with day-to-day matters (Bryntse 2000a). Both the social democratic and conservative political parties have influenced the path of development of competitive contracting in Sweden. The social democratic efforts to reduce the barriers to competition in the end of the 1980s paved the way for the conservative policies of the early 1990s, which led to a rapid increase of competitive contracting for a broad range of services. The disagreement within and between the political parties seemed to be less in Sweden than in Denmark, which might be explained by the economic crisis in Sweden.

Many different actors have also been involved in the surveillance and provision of guidelines for competitive contracting in Sweden and Denmark. In both countries the central government as well as the Associations of Local Authorities have played important roles by publishing reports, evaluations and surveys of contracting practices. In Denmark, a State Council for Contracting was established by the central government to support initiatives for contracting out. Guidance and control is also provided by a Competition Council (1996). Complaints on tendering procedures are handled by a Complaints Council for Tenders. Another influential actor in Denmark is the Ministry of Finance (1996) which has developed the "SMART" principles of how to contract out services, stating that tasks should be Specified, Measurable, Acceptable, Realistic and Timed (i.e. adopt a time schedule which can be kept). The Ministry endorses a process mode where the willingness to contract out is assessed, tasks are examined closely, and appropriate attention is directed to the design of the contract as well as the implementation and evaluation. Best Practice guidelines have also been issued by The Ministry of Home Affairs (PLS Consult, 1997), and by the Ministry of Trade and Industry (2000).

In Sweden the most influential body is the National Council of Public Procurement, which is the surveillance authority of the Law of public procurement. They publish guidelines for interpreting the law, reports on common practice and have a telephone service for advice. There has been a significant number of court-cases in Sweden concerning complaints from bidders about unlawful tendering procedures. The expressed opinion of the National Council of Procurement has played an important role in the interpretations of the law, with widespread implications for procurement practices

in the public authorities (Bryntse, 2000a). Another authority, the Swedish Competition Council, which is the surveillance authority of the Swedish Law of Competition, also carries out research about contracting and competition in the public sector and gives advice and courses to local authorities.

The industry associations in Sweden have developed standard contracts for public services in co-operation with the Association of local authorities. Associations of private contractors and lobby organizations have also been engaged in developing standard contracts for public services. The Swedish employer association (SAF) has taken an active part, publishing guidebooks, carrying out research and developed standard contracts. Many consultants and researchers have been involved in developing specifications, designing contracts and producing evaluation reports for the local authorities during the first years of the contracting -“boom”. Organization models for client and contractor splits have been diffused to many authorities through consultants and researchers.

Summing up, there has been many different actors and stakeholders in the adoption and implementation of competitive contracting in Sweden and Denmark. New institutional actors were also created in the process. The different actors were advocates for the use of competitive contracting from different perspectives and for different purposes.

THE OUTCOME OF COMPETITIVE CONTRACTING POLICIES

Problems of Comparison

The evaluation of the outcome of contracting policies is a problematic issue. There are obviously several dimensions of outcome to evaluate and there are different stakeholders with different priorities. The economic outcome measured as the amount of cost savings is one dimension, however there is also a qualitative dimension, as for instance changes in service levels, the occurrence of rupture of services or improved quality by more individualized service. Another dimension is the impact on working conditions.

Concerning the economic outcome there are problems with the tracing of costs and benefits, since they are fragmented in the organizations. There is also a problem of comparing figures before and after the implementation, since many different changes have been taking place simultaneously including changes of accounting practices. This results in a lack of comparability in the data gathered before and after contracting out. Although citizen surveys on the quality of services is quite common now in both Sweden and Denmark, there is still a problem of evaluation since local authorities seldom conducted user surveys before services were contracted out (PLS Consult, 1997: 118). Furthermore, it has to be considered that changes in service levels has been implemented due to general cost reductions and downsizing of the public services, not necessarily associated with competitive contracting. Finally, it has to be remembered that there is a considerable variation in proportions of competitive contracting and the outcome of contracting between different types of services.

Having alerted the readers attention to the problematic issues of comparisons, we will in the further sections anyway refer to some of the published findings on the outcome of contracting policies in Denmark and Sweden to illustrate the impact of the implementation of competitive contracting policies.

The Proportion of Competitive Contracting

According to published figures there seems to be a general increase of the proportion of contracting for services in both Sweden and Denmark. Different measures are however used in different comparisons and since accounting practices often have been changed in the process it can be problematic to evaluate the figures. Published figures sometimes also refer to central government and sometimes to local government services. In Denmark, published average figures of contracting out in *central* government show some increase in the 1990s, from 17,3% in 1992 to 19,9% in 1995. The average figures were still around 20% in 2000 according to the Danish Ministry of Finance (State Council for Contracting Out, 2000). In Danish *local authorities* the *average* proportion of contracted out services has been stable at 10% in the period from 1991-2000 and 7% in regional government (PLS Consult, 1997: 53; National Association for Local Governments 2000). For *building and maintenance services* the proportions of contracting are generally much higher, in central government 75 % and in local government 79 % (Ministry of Finance, 1996; PLS Consult, 1997). Contracted services in the *central government* include cleaning, building maintenance, program administration, consultants and food provisions. In *local government* the contracted out services include cleaning, elderly care, childcare, fire fighting, ambulance-services, public transports, garbage collection, meals for elderly, park maintenance and streets maintenance. Tasks related to authority powers and policy planning have not been contracted out (Christensen, 1996). Competitive contracting is mainly occurring in local authorities with a Conservative or Liberal majority.

In Sweden the *average* proportion of contracted out services of total expenses in *local authorities* was stable, around 6-7% (exclusive investment projects), until the beginning of the 1990s. The degree however varied in different services, ranging from about 80% in school transports, 50% in refuse collection, 25 % in building cleaning and highway maintenance, 6% in parks maintenance and 1-3% in elderly care and child care (SPK, 1992:4). In the 1990s the proportion increased in most services, especially in social services. The average proportion of contracting out of residential care for elderly increased from 1 % 1990 to 8% 1997 (Socialstyrelsen, 1998). In some of the larger, mainly conservative, cities the degree was much higher, about 30- 40% of the residential care for elderly was contracted out, as a proportion of total costs (Socialstyrelsen, 1996).

Cost Reductions and Quality

Different evaluation reports of competitive contracting for public services in Sweden has showed estimated cost reductions ranging between 5-20%, while the quality of the services has generally not been perceived as significantly changed (Bryntse, 2000a). There has also been reports of innovation in technology and work practices. In Denmark an evaluation of contracting out by a consultancy-firm, PLS Consult, on behalf of the

Danish Ministry of the Interior, showed savings in some local authorities, with retained level of quality, but a perceived decrease of service quality in others (PLS Consult, 1997). In the 20 local governments examined in the report, three local governments had a *reduction of costs* between 10 and 20% and four local governments saved less than 10%. One local authority reported savings of 24% on garbage collection. In these figures the transaction costs connected with the contracting out-procedures was not considered. In one local government, savings in a cleaning contract were reported to be 150.000 DKK, but the consultants fee was estimated to 100.000 DKK. Recent evaluations confirm the general findings of earlier reports (State Council for Contracting Out, 2000; National Association for Local Governments, 2000). In Denmark user surveys concerning quality have showed various results. In one local authority in Denmark, 97% of the respondents stated that they could not detect any improvement. Around 60% claimed that they were very unsatisfied with the cleaning service provided.

Citizens Choice

The increase of citizens' choice, was a strong argument in the conservative policies of contracting out in Sweden. A similar argument for increase in citizens' choice has been put forward in Denmark (National Association of Local Governments et.al., 1999). The aim does not seem to have been realized to a large degree. The citizens have not used the possibility to choose other alternatives than their familiar school, kindergarten, elderly home etc. (Trygghetsfonden, 1994).

The Procurement Legislation

In a Swedish survey among public authorities and contractors concerning the impact of the Law of public procurement, there were complaints from both sides on the restrictions of using negotiations in the tendering process, claiming that the restriction was a barrier to achieve a good balance between price and quality (NOU, 1998). A general opinion in the survey was that the procurement legislation had led to savings of up to 10%, in some cases up to 20%, in most authorities. But 15-20% of the authorities reported that the costs had increased recently and over 40% did not think that the legislation had resulted in increased efficiency in public procurement. Purchasing officers reported that they felt like bureaucrats instead of having a commercial responsibility. The proclaimed EU-advertisements for invitation to tenders were seen as something unnecessary, requiring much work and resulting in almost no bids from other countries. It was a common view that the character of many services required locally based contractors, for instance in school bus-services and building maintenance (NOU, 1998).

Working Conditions

In Sweden some surveys have been conducted on the impact of contracting on working conditions for employees. In one survey the working pace was generally perceived to have increased and the registered overtime had decreased since many employees brought their work home without reporting it as overtime. (Trygghetsfonden, no 22/94). The staffing density had generally decreased in for instance kindergartens and elderly

homes. This must however be seen in the light of the economic crisis in Sweden, which led to general reductions of staffing and service levels. Another survey among former public sector employees, now working for private contractors, showed that 62% perceived that the working pace had increased. But in the same survey 62% answered that the working climate was better and 82% answered that the personal opportunities to influence the working conditions had improved. 78% were more satisfied with their present private employer than their former public employer (Modig and Larsson, 1997).

In Denmark the working conditions was a major topic of discussion in the 1995 report by the Ministry of Finance and Ministry of Interior (1995). Consultancy firms' reports have suggested that unions should be informed and that their consent should be required, which is also recommended in the OECD guidelines (OECD, 1997). The National Organization of Labour in Denmark has now accepted contracting out, but the organization insists on a democratic control of the decision-making (LO, Statsansattes Kartel og Det Kommunale Kartel, 1997). In Sweden the regulations state a requirement to negotiate with the unions in each case of contracting out before the decision is taken. The unions can however not formally stop a contracting out-decision.

CONTRACT FAILURES AND SUCCESS STORIES

The number of reported contract failures has not been very large in Sweden and Denmark, but they have got a lot of attention and publicity. The failures have been associated with conflicts on working and pay conditions, poor communication between the authority and the contractor and in some cases with ambiguous and interfering politicians. In a contract for meal delivery to elderly in Denmark the contractor complained that the politicians kept interfering in the service delivery and the contractor withdrew from the contract after a short period of time (Andersen, 1996; PLS Consult, 1997). Two widely discussed failures in Denmark were the contracting out of bus services in the town of *Esbjerg*, and a contract for garbage collection in *Aarhus*. In both cases, long-term strikes were causing problems of delivering the services. In *Esbjerg*, the trade union had accepted lower wages for their members as they were transferred to the new contractor, but the bus drivers went on strike. In *Aarhus* there was a strike due to differences over working schedules and payment. In both cases the strikes eventually came to an end, but the incidents created a bad image for the contractors as the service delivery was interrupted for lengthy periods, with garbage piling up in the streets and buses not running.

In Sweden one contract failure in elderly care got a lot of attention in 1997. The Social Democratic ruled municipality *Solna*, a suburb of Stockholm, had awarded a contract for a residential home for elderly to the Danish company *ISS*. After a few months an assistant nurse reported to the media about maltreatment of the elderly. According to the nurse the elderly had not been taken care of properly and had developed leg wounds. *ISS* regretted the incident publicly, and claimed in defense that they had got inadequate information about the state of the elderly and had underestimated the need of staffing. The financial markets reacted sharply on the incident, wiping more than 500 million Danish kroner off *ISS* share value in just one day! However, an investigation by *Socialstyrelsen*, the Swedish surveillance authority for social services, resulted in claims that both the local authority and the contractor were responsible for the problems

(Socialstyrelsen, 1997). The local authority had not been giving correct information about the health status of the elderly and had forced the contract to be started up with too short notice. *ISS* on the other hand had accepted these conditions and therefore also was to blame. The incident resulted in a new law requiring staff in contracted social services to report maltreatment. *ISS* has recovered from the incident and has won several new contracts in Sweden.

Among the more outstanding success stories in Denmark is a contract for elderly care in the local authority of *Græsted-Gilleleje*, headed by neo-liberal politicians. First, the contract for elderly service was to be awarded to a Danish contractor, a subsidiary of two well-established companies, Falck and *ISS* (see above). The contract relationship failed however, and the contract was given to a Swedish company, which took over in 1997. The local authority claims the new contract to be a huge success: Employees are satisfied with the working conditions (after initial grumbling), and the elderly themselves express their happiness with the arrangement. In 2000, *Græsted-Gilleleje* contracted out all their elderly care to three private companies. Detailed case-studies have been made of the *Græsted-Gilleleje* case by Andersen (1996) and Fuglsang and Midjord (1997).

Generally the contracting out of *social services* seems to have been more debated in Denmark than in Sweden, and the ruling party has advocated not contracting them out. In Sweden the contracting out of social services has not been the same issue of debate and the proportion of contracted out elderly homes have increased significantly. There are plenty of successful examples of competitive contracting for elderly care in local authorities, with reported substantial cost savings, and sometimes with better quality and more individualized care (Socialstyrelsen, 1996,1998).

In Denmark, a well-known and disputed example of *extensive contracting* is the local government of *Farum*, where a prolific mayor has pushed the contracting out agenda very far. The mayor has fired all but five employees in the streets and park maintenance services, and hired a private company instead. The most recent initiative in Farum is to contract out some of the main policy tasks and support services at the mayor's office itself. In Sweden some smaller authorities have contracted out the whole technical department successfully and claim to have made substantial savings.

Summing up, there has been some significant outcome associated with the implementation of competitive contracting policies in Sweden and Denmark. There seems to be some increase in the proportion of contracting out in both countries, with large variation between different services and different local authorities. Competitive contracting seems to have resulted in significant cost reductions in public services in Sweden, according to several evaluation reports. In Denmark, there seems to be more mixed reports and concerns about the outcome.

In Sweden some changes in working practices have been reported. The working pace has increased but the working climate is perceived to be better. The quality of services seems mainly to be perceived as unchanged, or lower in some services. In Denmark the impact on working conditions and quality of services seems to be more debated. The expected increase of citizens' choice has not been documented in either country. The service industries seems however to have developed and there is an increased cross-

border tendering between the two countries. In total, the policy implementations and transformations seems to have had an impact on the management of public services with different types of outcomes according to different purposes of different stakeholders.

SUMMARY AND DISCUSSION

The concept of competitive contracting as a general mode of management of public services has been widely diffused to many countries in the last decades. Sweden and Denmark have also followed the path of development, but in slightly different styles and phases. We will here summarize and discuss the differences and similarities we have found and suggest some possible explanations according to sociological institutional theories of how fashionable management concepts are diffused and transformed into local contexts.

Similar Means of Implementation and Transformation

In both Sweden and Denmark a mixture of central government legislation and local government policies has been used as means in the implementation and transformation of the competitive contracting concept. Both countries also have been obliged to comply with the EC-directives of public procurement. The development of the competitive contracting concept has been furthered in both countries by interpretations of policies and legislation launched by political parties, local authority associations, surveillance authorities, consultants, researchers, industry associations and lobby organizations. In Sweden it seemed to be more emphasis on the legislative enforcement of competitive contracting policies in the local authorities, with a more far-reaching legislation than in Denmark. This could maybe be explained by the perception of Swedish culture as more administratively oriented and law-abiding. The relative dominance of different actors seemed to be different and can probably be explained by the importance of individual actors on the arena and by different settings of institutional fields in the two countries.

Different Pace of Development

The pace of implementing policies of competitive contracting has been different in the two countries. Sweden has had an action-oriented, rapid development of contracting for a wide range of public services. The Danish case demonstrates a slower mode with more talk and less action. We argue that the most plausible explanation to this is the occurrence of an economic crisis in Sweden, which called for rapid changes, while the lack of crisis in Denmark caused a reluctance to change. This indicates that situational economic factors have to be considered in the analysis of the diffusion and adoption of management concepts.

The Danish case also generally showed more of institutional conflict and less of consent, even within political parties. There were more debates of different issues, which might be explained by a higher level of acceptance for disagreements in the Danish culture. The Swedish culture is perceived as more consent-seeking, which might explain the lower degree of debate in Sweden.

Different Emphasis on Different Purposes

In both Denmark and Sweden it is obvious that several institutional actors have been involved in the process of implementation and transformation, with partly different agendas. It could be labeled as competing institutional interests striving to dominate the process. Different institutional actors, as for instance EU, state governments, local governments, political parties, private sector industry associations, labor unions, researchers etc, have influenced the process for different purposes (Andersen, 1997). EU has, with the EC-directives of public procurement, been aiming for increased cross-border trade in Europe to achieve better integration. The state and local governments have been aiming at cost-reductions and more efficient government services through competition. There has also been a quest for public legitimacy by introducing “modern” (and private sector) management ideas in the public services. The private sector associations has from their perspective been aiming for a higher share of public services. The consultants have been looking for lucrative business and the labor unions have been trying to defend good working conditions. It seems like most parties have succeeded to some degree in the process, and they have to some extent balanced each other.

It has been argued by several researchers that competitive contracting can be perceived as a multipurpose concept, which can be used to obtain different goals (Peters, 1996, Glennerster and LeGrand, 1994). Fiscal pressure, as well as adherence to the New Public Management concepts have by some researchers been seen as dominant drivers (Domberger and Hall, 1996). Contracting out has also been perceived as a means for reducing the power of trade unions (Ascher 1987, Walsh, 1995) and for a general downsizing and restructuring of services (Bryntse, 2000a). The analysis of the implementation of competitive contracting policies in Denmark and Sweden support the view of competitive contracting as a multipurpose concept. Competitive contracting seems to be legitimate for different reasons. Cost reductions seemed to be the main argument in Sweden. Improved quality seemed to be a more appropriate argument in Denmark. In Denmark competitive contracting was also seen as a legitimate way to modernize the public sector and to develop the private sector service industry, which was not an expressed argument in Sweden. In Sweden, on the other hand, there were also expressed aims to enable a strategic role for politicians, and relieve them from dealing with day-to-day matters.

The different emphasis on different purposes can to some degree be explained by situational economic factors having an influence on the legitimacy of different purposes. The re-introduction of contracting for public services in Denmark in the 1990s was for instance presented with arguments of increased quality, promotion of the service industry and providing citizens with choice. The argument of cost reduction was almost absent, and was probably not seen as legitimate in public debates, since there was no fiscal pressure. In Sweden, on the other hand, the main argument was to reduce costs through competition, which was the most legitimate argument in the economic crisis. The differences between Denmark and Sweden in the views of contracting out *social services* could also be due to the Swedish economic crisis, which forced the local authorities to expose as many services as possible to competition to achieve substantial cost savings.

The differences in adoption and legitimization of the contracting concepts can however also be explained by different institutional contexts. A change has to be legitimized by arguments that fit in with the established cultural belief systems and perceptions (Czarniawska and Joerges, 1996). The special focus on arguments for development of the service industry in the Danish case can be explained by the commercial orientation of Danish culture. The Swedish emphasis on the purpose of changing political working procedures and more emphasis on the procurement legislation as a means, can be explained by the more administratively oriented cultural belief-systems in Sweden (Alvesson, Henriksson and Lind, 1999; Boye, 1999).

CONCLUSIONS

In this article we have examined the processes of implementation and transformation of competitive contracting policies in two Scandinavian countries; Denmark and Sweden. Although contracting has a long history in public services in both countries, it is now more associated with competitive tendering than before and more seen as a general management concept. The analysis of the policy implementation processes in the two countries has shown some differences in purposes, actors, means and pace. The outcome has been perceived as mixed, out of different perspectives. In general, the concept of competitive contracting however seems to be established as an accepted mode of management in both Sweden and Denmark, but by slightly different reasons. Our analysis supports the view of competitive contracting as a tool for many different purposes.

According to our analysis of the processes of implementation and transformation of the competitive contracting concept we argue that the national cultural context has an influence on how fashionable management ideas are adopted. The prevailing cultural orientation and belief systems seems to affect both the alignment of management concepts to legitimate purposes (or vice versa) and the relative emphasis on means for implementing policies.

As we mentioned in the brief introduction of our theoretical framework there is a debate between economical and sociological institutional theories, whether governance forms and management concepts are chosen according to economic rational motives or according to a sociological need to acquire legitimacy by adopting general, fashionable concepts. We conclude that most of the elements in the implementation processes we have analyzed can be explained by the sociological institutional theories we have referred to. It could be argued that there was an element of fashionfollowing and imitation of travelling ideas, since the Swedish policies were much influenced by the UK policies of compulsory competitive tendering and Denmark also seemed to have been influenced by the Swedish experiences. The timing of adoption of the concept of competitive contracting seemed to be coincident with changes of political norms in the society. The analysis finally indicated that the concepts were transformed differently according to different cultural contexts, and with different and competing institutional interests influencing the processes.

However, regarding the different time phases and pace of the processes of implementation, we argue that the most plausible explanation is the occurrence of an

economic crisis in Sweden that called for rapid cost reductions and created a general willingness to change modes of management. Conversely, the lack of crisis in Denmark caused a reluctance to change. This indicates that economic factors and motives also have to be considered in the analysis of choice and adoption of management concepts. The fact that there seemed to be general differences of the degree of contracting out between different types of public services also indicates that there might be transaction-economic reasons for a certain mode of governance according to the type of tasks.

Our overall conclusion from the analysis of the implementation and transformation of competitive contracting policies in Denmark and Sweden is that general, fashionable concepts of public management are travelling between countries, but are transformed by and adjusted to national cultural contexts and institutional settings. Economic factors, as for instance an economic crisis, seem to play a role in how and when new concepts are adopted.

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