

# Markets for the elderly

- Efficiency and bureaucracy in the home care sector -

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## ABSTRACT

The public sector has in recent years been pushed in the direction of adopting a more market-oriented approach, i.e. New Public Management (NPM). This is done with the intention to increase efficiency, improve quality and reduce bureaucracy, as well as to distribute power to more actors, in this case private ones. In the home care sector municipalities have been compelled by government to change the ways they are conducting business and how they organize themselves. There are however, in academic literature, diverging thoughts on what efficiency gains (and possible costs) that can be expected of such organizational changes. One such NPM initiative is Lagen Om Valfrihetssystem (LOV) "The Swedish System for Freedom Act". This paper aims to increase the knowledge on what performance gains and/or costs are being associated with the introduction of LOV in three Swedish municipalities. These municipalities represent different stages of implementation of LOV. We find that implementation of LOV has led to increased transparency, control, and efficiency in some areas, but that it has also led to increased demands on administration. The municipalities with the furthest implementation of LOV also have the highest associated administrative costs. These organizational costs are more evident than the rather ambiguous results concerning efficiency. It is worth to mention that efficiency is hard to measure in the municipalities, due to lack of definitions and aggregated measurements. We also see that many of the benefits of a market-oriented approach can be obtained without actually implementing any initiative. This is because by just scrutinizing ones activities through the looking glass of a market-oriented view, there are lessons to be learned without the need to take on the transaction costs of actual implementation.

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## Definitions of Key Terminology

**Hälso- och sjukvård** – “Healthcare” in Sweden is mainly conducted through county-municipal directives (see **Kommuner** and **Landsting** below), that in turn are governed by the state. County councils determine what extent of health care should be within the county or region, and they determine what costs are acceptable for the ordered treatments. Committees and boards, appointed by representatives from the elected political parties, govern the enforcement of these policies. There are also private alternatives available to the tax-funded health care.

**Inspektionen för vård och omsorg (IVO)** - The Health and Social Care Inspectorate is a government agency responsible for supervising health care, social services and activities under the Act concerning Support and Service for Persons with Certain Functional Impairments (LSS). IVO is also responsible for issuing certain permits in these areas. Its supervision remit covers the processing of complaints concerning, for example, the reporting of irregularities in health care and social care (called lex Sarah and lex Maria reports) and the municipal obligation to report non-enforced decisions.

**Kammarkollegiet** - The Legal, Financial, and Administrative Services Agency is an organization that exercises public authority, but that also operates commercial undertakings. Their tasks cover an extensive area and mainly involve activities that require qualified legal and economic expertise.

**Kommuner** – “Municipalities” are responsible for a large part of the public service that is present where people live (such as cities, etc.). Among the most important tasks is preschools, schools, social services and elderly care. Municipalities are governed by a directly elected city council. This is done through party elections, elected in the same manner and on the same day as the parliament. Below the city council is the municipal executive board of directors, who manages the overall ongoing political processes, and in addition to this there are various committees and boards that manage the municipality's commitments in different areas. Below these committees and boards, are offices and administrations with officials who implement political decisions and manage the daily work in municipal activities.

**Konkurrensverket** – The Swedish Competition Authority is a state authority working to safeguard and increase competition and supervise public procurement in Sweden. Their task is to work for efficient competition in the private and public sectors for the benefit of the consumers as well as for the efficient public procurement for the benefit of the society and the participants in the markets.

**Lagen Om Offentlig Upphandling (LOU)** - The Law of Public Procurement is a law that regulates in detail how authorities may act when purchasing (procuring), goods, services, and contracts. Authorities are required by law to advertise all purchases that are intended to be made, in order for interested companies to be given the opportunity to tender. The requirements shall also be announced in the tender documentation. Authorities must provide the contract documents and evaluate all tenders or requests to tender. The evaluation will be done on

objective grounds, and must not deviate from the evaluation method that was announced in the tender documents. The outcome of the evaluation will determine who wins the contract, and this is announced in an allocation decision.

**Lagen Om Valfrihetssystem (LOV)** – “The Swedish System for Freedom Act” is a law on the system of choice that regulates what applies to municipalities and counties who wish to introduce competition in municipal and county services by delegating the choice of provider of assistance, or of care services to the user or patient.

**Landsting** – “County and regional councils” are responsible for tasks that are common to large geographical areas and that often requires large financial resources. The county councils' most important task is health care. Counties are regional self-governing units in Sweden introduced by the 1862 Local Government Reform. They are sometimes called "secondary municipalities", in contrast to the usual (primary) municipalities.

**Socialstyrelsen** - National Board of Health and Welfare is a government agency under the Ministry of Health and Social Affairs, with a very wide range of activities and many different duties within the fields of social services, health and medical services, patient safety and epidemiology. The majority of their activities focus on staff, managers and decision-makers in the abovementioned areas. They give support and exert influence in many different ways, they collect, compile, analyze and pass on information, they develop standards based on legislation and the information collected, and they also undertake other official duties such as maintaining health data registers and official statistics.

**Socialtjänstlagen** – The Social Services Act is a law that state the rights to social assistance and health care. It contains rules governing how society should help all who need help and cannot get help from anyone else.

**Sveriges Kommuner och Landsting (SKL)** – The Swedish Association of Local Authorities and Regions (SALAR) is both an employers' organization and an organization that represents and advocates for local government in Sweden. All of Sweden's municipalities, county councils and regions are members of SALAR. SALAR represents and acts on their initiative. Their mission is to provide municipalities, county councils and regions with better conditions for local and regional self-government. Their vision is to develop the welfare system and its services.

**Valfrihetswebben** – “The System of Choice Web” is the national website for publishing contract notices for services under the Act on System of Choice (LOV). Among the services advertised are health and medical care, social services, and labor market policy measures, for example, introduction guides and job placements. The notices are available to everyone and cost nothing to view.

**Ädelreformen** – “The Elderly reform” was carried out in Sweden on 1 January 1992 and it meant that municipalities were given overall responsibility for long-term service and the care for the elderly and disabled, and through this took over some responsibilities that previously been

on the county councils. The municipalities also have a responsibility to health care (excluding medical intervention) and for simpler assistive technology in special housing. In agreement with the county council, the municipalities have the possibility to take over responsibility for home care in the individual's home. Through the reform, the municipalities have a partly regulated liability for such somatic long-term care that they do not have operational responsibility for (conducted by the county council or private caregivers) and a liability for the completed medical treatment of patients in somatic acute care and in geriatrics.

**Äldres behov i centrum (ÄBIC)** – “Elderlys’ Needs In Focus” is a need-focused and systematic approach with structured documentation of needs, goals and outcomes in the management, implementation, and monitoring of health and care of the elderly.

# 1. INTRODUCTION

Starting in the 1980's New Public Management (NPM) is the summarizing notion of reforms aimed at restructuring and improving the public sector. NPM includes the assumption that a market is a more efficient and less bureaucratic way of organizing transactions. As part of NPM it is for example common for organizations to create an internal market inside the organization, where they divide departments into the roles of client and contractor in order to increase efficiency, and as a way to control an increasingly complex organization. The main idea of NPM is however to open up and expose the organization to an external market in order to increase efficiency through competitive pressure, improve quality, reduce bureaucracy, introduce new management styles, distribute power to more actors etc. (Pollitt & Bouckaert 2000, Hood 1995, Lapsley 1999). Influenced by NPM two laws have been instated in Sweden, namely the law of public procurement (Lagen Om Offentlig Upphandling - LOU), and the Swedish System for Freedom Act (Lagen Om Valfrihetssystem - LOV). These laws in effect open up the public sector to private actors, i.e. a form of *marketization*. In brief, LOU allow private actors to compete in the public sector and LOV allow end users to choose their preferred supplier (more on this in the *Historical Background* section).

This idea of an autonomous market might not be that easily achieved though, and there are diverging opinions on what effects it has on performance. Earlier empirical work do not provide any conclusive results on the effects of these NPM initiatives (see section *Purpose and Research Question*), but instead the notion of increased efficiency and decreased bureaucracy can much more be seen as theoretical expectations based in political ideology (Szebehely 2011). In this paper we try to increase knowledge about what effects this marketization have had on efficiency in the home care sector and what problems and costs that could be associated with this market-adaptation that is introduced by adhering to the requirements of LOV. There is governmental pressure on municipalities to implement LOV, as of now it is not mandatory for home care services, but it is likely to become so in a not so distant future.

In order for these, by municipalities, created *quasi-markets* to function properly, the associated *transaction costs* need to be limited (for more detailed definitions and discussion, see section *Literature Review*). Freedom of choice systems, such as LOV, almost always mean increased transaction costs. For example in home care the granting of aid process takes longer time since the administrator needs to be in contact with a larger number of service providers, and more resources need to be spent on follow-ups and control (Konkurrensverket 2008). There are some empirical studies that point to increased transaction costs because of freedom of choice systems (Charpentier 2004, Winblad et.al. 2009), but knowledge in this area is very limited (Vabø 2005, Kastberg 2010).

In order to close this knowledge gap and to get a comparison of gains and costs between different levels of implementation we compare three different municipalities (at varying stages of LOV implementation) and their work within the home care sector. The intention is to give a relative performance measure (based on efficiency gains and transactional costs) between the selected cases considering their implementation level. We intend to look at the problem through an

organizational lens where the effects of changing from a bureaucratic organization to a more market-adapted one are considered (Brunsson 2014), and we believe this research area to be of highest relevance, since the idea of organizing and/or market-adapting the elderly care in Sweden is not new, it has been an on-going topic for quite some time, and will most likely continue to be so.

## 1.1 Historical Background

In Sweden, the expansion of a rigorous social policy started during the late 19<sup>th</sup> century. Following World War 2, the parliament (Riksdag) made a choice to implement reforms to accelerate the scope of the government's involvement in the elderly care. Since that time the government's role in this sector has been frequently debated. The idea of the Swedish social welfare model is that every individual is entitled to the services provided by the system. Although the government has a long tradition of supplying these services, there are situations where private actors may be more efficient at providing public services. This is ultimately to the benefit of the citizens, because in Sweden public social expenditures are very large and mainly financed by tax payments (Trydegård 2000).

In the legal Elderly reform, "Ädelreformen" from 1992, it was stated that municipalities should provide for the long-term elderly care of their inhabitants. The reform was aimed at achieving two things; allowing elderly people to get treatment in their homes and as a mean to spend public resources more efficiently. The Elderly reform was influenced by the, at that time, current trend of New Public Management. During that time, it was fashionable for governments to encourage competition through *privatization* and marketization (Stolt & Winblad, 2009). Privatization being either the process of transferring ownership of a public service or property from the public to the private sector, or government outsourcing of services or functions to private firms, and marketization being the restructuring process that enables state enterprises to operate as market-oriented firms by changing the legal environment in which they operate (van der Hoeven & Sziráczki 1997). For our purposes in this paper we find it sufficient to hereafter use these terms interchangeably. Besides creating increased responsibilities, the elderly reform also created economic incentives for municipalities that made them look for opportunities to operate more efficiently (Trydegård 2000).

During the same year, 1992, the law on public procurement (Lagen om Offentlig Upphandling - LOU) was also instated. This gave birth to the purchaser-provider model, which enabled private contractors to offer their services to the municipalities. Municipalities are required to provide a certain level of elderly care for a given cost, but the municipality's choice of supplier will take place under market conditions. Another reform, The Swedish System for Freedom Act (LOV), was implemented in January 2009 (Konkurrensverket 2015). The LOV reform promotes a society where both private and public actors are able to operate and grant inhabitants the freedom of choice. Prior to LOV municipalities were responsible for the procurement of, for example, home care services but the municipalities' inhabitants were assigned to whatever service provider the municipality had chosen. With LOV the inhabitants now themselves choose which service provider they want, from the, by the municipality, accredited ones.



## 1.2 Purpose and Research Question

The welfare system is a frequently debated topic. It has intensified in recent years due to the marketization of this area and also because of some scandals, such as that associated with Carema, a private actor in the elderly care sector, where profit motives were blamed for excessive cost cuttings, badly educated personnel, and lowered guarantee of medical security for the patients (Dagens Nyheter 2012). It is of course also highly debated because maintaining the Swedish welfare system comprises a substantial part of total governmental spending. Making the home care sector both more efficient and effective is thus an important and necessary objective for decision-makers. Every year public organizations in Sweden spend approximately 550-600 billion SEK on procurement of goods and services, so only slight improvements will lead to substantial cost savings ultimately to the benefit of taxpayers (Furusten 2014). Another hotly debated issue is that recently many employees in the home care sector have complained about excessive control systems and too little time to perform their duties (Werkelin Ahlin et.al. 2015).

The Social Services Act, "Socialtjänstlagen", is the law that governs how the social services should operate. This law and other directives and laws, such as LOU and LOV, heavily influence the way procurement of services is made. LOU and LOV in turn are products of the NPM trend, and in the case of LOV more specifically the NPM sub-trend of marketization. The proponents of marketization (and LOV) hope that putting competitive pressure on organizations will lead to improvements, such as increased efficiency and satisfaction among customers. The results from existing studies, on the effects of marketization on efficiency and what impact marketization has had on bureaucracy, display ambiguity. There are some studies that show increased efficiency and decreased bureaucracy due to marketization, although the results are somewhat ambiguous (Ehrlich, Gallais-Hamonno, Liu and Lutter 1994, Niskanen 1968, Boyne 1998), and other studies show that the effects can in fact be counter-productive (Downs 1967).

Assessing the health care and home care sector in particular is even more difficult as it is difficult to measure accurately in such organizations (Jacksson 1995, Slagsvold 1995). In addition to the measurement problem it is also problematic that the state of knowledge is very limited in many areas (Hartman 2011). This is particularly evident in Sweden, statistical measures are very limited concerning municipalities costs, split between public and private providers etc. (Anell 2011, Szebehely 2011). Looking at the available international research there are studies expressing both positive and negative aspects of marketization and different modes of operating. There are views that in the medical care sector, organizations without a profit-maximizing goal should be preferred as they look to a wider range of goals (Arrow 1963).

Furthermore, one of the primary conditions for a good elderly care is the staffing level (Harrington et al. 2000). This should imply that private providers in general have less satisfied customers as the average staffing level is eleven percent higher in non-profit providers and as a result, non-profit providers deliver higher quality services than for-profit providers (Comondore et.al 2009). To make it even more ambiguous, there are studies that suggest that there are several other, more important factors explaining quality better than the mode of operating. Such factors are the terms for competition and forms of remuneration, which proved to have a significant impact on quality of British hospitals (Propper, Burgess & Gossage 2008).

There has been a revived focus on implementation studies, partly due to the suggested objective of NPM and marketization reforms to lead to increased efficiency, quality, creativity, innovation etc. However, there is evidence that these reforms might have led to increased bureaucracy and stricter control. Additional unintended consequences include a pressure to meet targets, which makes some public organizations to focus on the “wrong” things and even in some cases to manipulate figures (Barrett 2004). To conclude, we believe that further research is necessary in order to gain better insights of the effects of marketization especially in the public sector.

There has been research conducted in the Nordics by Forssell & Ivarsson-Westerberg where they reach the conclusion that our society is becoming an administrative society, even though the last decades NPM reforms should suggest differently (Forssell & Ivarsson-Westerberg 2014). They specifically develop the transaction costs framework originally developed by Coase and Williamson further. Their theory points to transaction costs that arise when organizations shifts between different modes of organizing, i.e. organization or market, but we lack a study on what occurs during the change process, from pure organization through the gradual shift to a market. Therefore we have chosen to focus on conducting in-depth interviews with representatives from three municipalities, Österåker, Hjo and Lessebo. We have chosen these specific municipalities as they have made some different decisions regarding marketization, which we then used as a background when comparing their perceived positive and negative effects of this process. In designing our research it was particularly suitable to choose these municipalities as one of them has something that resembles as well-functioning market for elderly care (Österåker), one has implemented the marketization reform (LOV) but is still in an early stage (Hjo), and one has not implemented the reform at all but has made an investigation to do so (Lessebo) and hence serve as an appropriate comparison. From this sample we want to address our research questions by investigating it through an organizational lens and recognizing issues when an organization moves towards a more market-oriented approach.

The above reasoning leads us to our research question and sub question:

*How does marketization affect inter-organizational efficiency?*

*What problems and costs might arise due to marketization and how do the municipalities handle them?*

Our definition of efficiency is to uphold a certain quality to the lowest possible “cost”. For example, to increase efficiency would be to provide those who currently receive home care aid with the same quantity and quality of service as before, but doing this with lower costs to the organization. These costs can be measured in money, time, or effort spent.

More specifically in our study these questions are addressing the implementation (or not) of LOV in certain municipalities and the home care sector. The reason being that introducing LOV means creating external markets, where private actors are invited to participate. We believe these external markets put more strains on the administration than internal ones, hence becoming an interesting object of study. Although, our case is specific in nature, there might be some possible abstraction to a more general level, which will be more fully discussed in the concluding chapter.

### 1.3 Disposition

*Chapter 2: THEORIES OF MARKETS AND ORGANIZATIONS*

Following this introduction we will go into the theoretical framework including a systematic review of current theories, research and research gaps in this field.

*Chapter 3: METHODOLOGY OF OUR INVESTIGATION*

The aim of our third chapter is to describe the methodology we have used to conduct our research. We will describe our research approach, how and why we chose to focus on certain municipalities, how we collected data and how we conducted our analysis.

*Chapter 4: PRESENTATIONS AND FINDINGS OF THREE MUNICIPALITIES*

In the fourth chapter we present and describe our findings for each municipality.

*Chapter 5: ANALYSIS OF MUNICIPAL FINDINGS*

In the fifth chapter we analyze our empirical findings. We conclude this chapter with an analysis with the objective to identify differences as well as similarities across municipalities.

*Chapter 6: CONCLUSION & DISCUSSION* In our final chapter we conclude our findings, discuss theoretical and practical implications and whether we managed to fill a research gap and if there are any further topics to investigate in order to complement our study.

## 2. THEORIES OF MARKETS AND ORGANIZATIONS

In this section, relevant literature is presented and examined and from this selection a theoretical framework is constructed. This will be used when the empirical findings are analyzed in subsequent “Analysis” chapter. We have used an iterative process, based on *grounded theory* (Bryman & Bell 2011) combined with *abduction* (Alvesson & Sköldberg 2008), where we adapted and complemented our presented and used theory depending on the most relevant findings in our gathered empirical data, which in turn narrowed our focus of later interviews, etc. First, to gain an understanding of what research has been done and what its main findings are this chapter starts with a literature review.

### 2.1 Literature Review

There have been papers written about privatization and its effects, but the findings are somewhat ambiguous. This is usually contributed to the difficulty in the public sector of defining what to measure and how to do it. Despite these problems there have been many initiatives of trying to increase efficiency in this sector. In an effort to bring some basic understanding of where New Public Management takes its influence we start by examining the classic theory of transaction costs.

#### 2.1.1 Transactions and Costs

To understand why organizations choose to organize themselves in a particular way it is useful to consider the theory of transaction costs. Traditional economic theory focuses on transaction cost theory as an explanatory variable for why companies exist and when it would be more profitable for them to outsource activities to a market. Some of the best known economists behind this theory are Ronald Coase and Oliver Williamson. They mean that companies always strive to minimize the costs of exchanging resources with their environment as well as bureaucratic costs of exchanging within the company. This reasoning leads to different possible forms of organizing and of coordinating economic transactions. When external transaction costs are higher than the company's internal bureaucratic costs, the company will grow, because the company is able to perform its activities at a lower cost, than if the activities were performed in the market. However, if the bureaucratic costs for coordinating the activity are higher than the external transaction costs, the company will be downsized (Coase 1937, Williamson 1985).

A consequence when public organizations are split into smaller units to be controlled by results, or when businesses are exposed to competition, and more activities are outsourced, is that the transactions and flows of resources that occur are measured and recorded, which places new demands on the financial administration (Forssell & Ivarsson-Westerberg 2014). Further, contracts need to be specified and negotiated, and procedures to measure performance need to be established. Since market reforms thus create new organizational relationships, they also create demands for new forms of management, coordination and monitoring. These transaction costs (Coase 1937) increase when the administrative relations grow in number. Something that may affect transaction costs is that they increase the more complex a service is and they decrease with long-lasting relationships between parties (Williamson 1985). Although we consider the transaction cost theory to be very useful it has its limitations as most other theories. Lacking in the theory in our view is a heterogeneous view on firms and their transaction costs. Differing

capabilities among firms lead to different productions costs to be compared with the transaction costs associated with procuring the product or service on a market. Furthermore, there are plenty of other factors affecting how organizations chose to organize themselves, especially governmental or municipal organizations. Decision makers might decide that the organization should be organized in a particular way due to a certain ideology they have, i.e. market liberals will likely promote a free market. Other reasons affecting the decision to organize through an organization or a market might be the effect it will have on the number of jobs in a particular area. Even though it might be economically more suitable to outsource, politicians might choose not to purchase goods/services on an open market in order to keep people employed.

### 2.1.2 Privatization and Organization

Although transaction costs have the potential to diminish the benefits of markets, markets have been growing in popularity in recent decades as we described in our introduction. Researchers and politicians among others express the pros with market solutions where goods and services are competitively procured over an open market. This trend is also called privatization and/or marketization, which means markets are created where private actors are allowed to compete alongside public organizations. This solution has been an alternative to the perceived slower and more bureaucratic organizations. It is believed that a market solution increases efficiency and is more economically reasonable (Brunsson 2014).

Privatization is an important element of the NPM trend of using markets to allocate resources. Research has shown that privatization in some cases contributes to increased efficiency, productivity, profitability and lower costs. An example of this is a study from 1994 where 23 international airlines with varying levels of state ownership were examined. The results suggested that state ownership could lower organizations' long-run productivity growth and the rate of their cost decline (Ehrlich, Gallais-Hamonno, Liu and Lutter 1994). Another study investigated the efficiency levels of firms with different ownership structures in India (Majumdar 1998). Majumdar finds superior levels of efficiency for private firms in comparison with state-owned enterprises.

When it comes to the efficiency of public service organizations the results are more ambiguous. This is partly due to the fact that the effectiveness of public services is very difficult to measure and to define (Jackson 1995). To increase efficiency and decrease bureaucracy in public organizations the solution has been to implement markets that are supposed to be more competitive. Government or municipalities should still provide financing but private profit seeking enterprises should be allowed to compete for contracts. Some researchers argue that this would reduce the level of bureaucracy, except for the contracting and reviewing parts of the organization (Niskanen 1968, Boyne 1998). However, not everyone supports this viewpoint; many scholars have for a long time pointed to the risk that the creation of additional tasks and agencies within organizations might create additional bureaucracy and thus make the reforms counter-productive (Downs 1967).

In addition to the creation of additional contracting and reviewing parts of the organization, research suggests that there could be costs associated with customer choice in this sector.

Increased inequality is a potential outcome as different people and groups of people have different preconditions to make rational choices. This goes against the fundamental idea of these services, namely the provision of these services to inhabitants in need regardless of position in society and ability to make rational decisions (Barnes & Prior 1995). In the more specific case of elderly people, research finds that even if they are in good shape to make a rational decision, they still find it difficult to assess the quality of the services, and they are often anxious to make the wrong decision (Glendinning 2008). Our view from studying previous literature is that it is not clear what the exact impact on efficiency is from movements such as marketization and privatization. The results seem to be most ambiguous in the public service sector, partly due to the difficulty of accurate measurements but probably also because the traditional transaction cost theory might not be applicable when decision makers decide how to organize.

A frequent example of a “perfect” market is the stock exchange. However, they are in reality not purely autonomous markets, but rather organized markets. There are multiple rules, requirements for membership, standards, surveillance etc. As a consequence, when you try to move from an organizational structure to a market structure it is not the case that no more organizing is required. Rather another form of organizing appears and it usually takes quite some time to make this transition. Several initiatives in Sweden have exemplified that this transition is not always that easy, the benefits of marketization has not been realized and in some cases it has only led to an increasing amount of organization (Furusten 2014). In many instances, the creation of markets has led to the creation of new organizations with the sole objective to monitor and organize markets (Brunsson & Gustafsson & Hallström 2014). There are several other researchers who have pointed to the increased bureaucratization that followed the NPM-orientation. For instance, Gregory (2007) argues that this can be seen as the unforeseen consequences of the NPM reforms, and that countries are entering a “post-NPM” phase reinventing the Weberian bureaucracy. Explanations for the emergence of the administrative society may be sought in the larger social trends of rationalizing, organizing and economization. Furthermore, in some cases there have also been a redistribution of the administrative work inside the organizations in the direction of more generalist staff, as opposed to the specialist ideal that is in accordance with Adam Smith’s theory (Forssell & Ivarsson-Westerberg 2014). All this is something that in effect blurs the line between organizations and markets.

### 2.1.3 Organizations and Markets

Brunsson (2014) claims that it is important to keep in mind that the distinction between organizations and markets is not always clear-cut. The ways organizations and markets are structured are often interrelated. In order to detect if any of this interrelation exists in our selected municipalities there have to be initial definitions of what this entails. When Brunsson suggests that markets and organizations are not as separable as some theories might suggest, he points to three things to illustrate their close ties; organizations are active participants in markets and there are two sorts of buyers and sellers that are active in markets: individuals and organizations; large organizations often function as internal markets and divisions within these large groups often purchase services from each other in an effort to steer complex organizations; and finally, he points to the fact that markets are used to affect organizations and vice versa. Through the pressure

from demanding buyers and market competition organizations should strive to improve, this is a common argument when companies implement internal markets or outsource services.

Another important fact to consider is that where LOV has been implemented in the home care sector, these newly created markets are not considered as classically ideal markets, at least in a stricter sense; they are instead what is called *quasi-markets* (Le Grand 1991). This is because perfect competition cannot be expected, since the government places various limitations with laws for guaranteeing the rights of users (citizens). On the supply side, there exist non-profit organizations, which compete against profit organizations for users. On the demand side consumer's purchasing power is not strictly expressed in money terms, but instead takes the form of a "voucher" or "need", since services are bought by purchasing agents (in our case by municipalities) and then distributed to the users of the services. Le Grand (1991) lists a number of important prerequisites that need to be fulfilled for a quasi-market to function well. For success there needs to be a market structure; that is based on competition and prices; with correct and complete information (about prices, offers, contracts, quality, etc.); with limited transactions costs - including switching costs – (switching costs being, for example, when switching from one supplier to another); with a balanced motivational structure (that incentivizes market players to increase efficiency and improve quality); without negative effects in the form of only the most profitable customers being prioritized.

There have been studies made concerning most of these areas, but this study will focus mainly on the third criteria – the need for limited transaction costs – since this is where research seems to be most lacking, and there are several costs that have not been fully addressed (Szebehely 2011).

## 2.2 Theoretical Framework

In our efforts to find relevant theory for our thesis we have used an approach where we have derived theoretical ideas from the collected data in an iterative process (Bryman & Bell 2011). When choosing our theoretical framework we conducted a thorough screening of theory discussing transaction costs, NPM, markets and marketization. In order to clearly see if any organizational changes were made in the municipalities studied and how these changes could be traced back to the ideas of NPM the work by Forssell and Ivarsson-Westerberg, in which they have tried to link the change of administrative work to NPM, were used. Forssell and Ivarsson-Westerberg recognize seven typical variants of different models of NPM that we intend to use in our analysis of our three case municipalities; introduction of smaller units, profit centers, the mix of public and private; introduction of the internal market and contract relationships; focus on governance and management practices from the private sector; enhanced budgetary discipline and cost consciousness; emphasis on direct leadership; pronounced formal measurable standards and targets, and measuring of performance; and finally, increased emphasis on productivity (Forssell & Ivarsson-Westerberg 2014).

In conducting the study it was also necessary to define the possible administrative costs that could arise when marketization is implemented. This was needed in order to recognize these costs and control if they were corresponding to what our chosen relevant theory was stating. Forssell and Ivarsson-Westerberg have identified four types of transaction costs that are useful when assessing

the effects of marketization and potential efficiency gains. They have found that four typical transactions costs occur when the number of organizational units increases.

Firstly, there are *internal organizational costs*; many of the NPM reforms have led to the creation of more organizational units within the larger organization. This increases the administrative relationships that results in transaction costs through the increased need of coordination. According to Williamson (1985), internal markets do not necessarily replace the old transaction costs but can in many cases just add a layer of transaction costs and increase the need for coordination and governance. Furthermore, with an increasing focus on procuring services on a competitive market the amount of resources spent on administrating and coordinating this has increased for public organizations. (Forssell & Ivarsson-Westerberg 2014).

Secondly, there are *control costs*; this includes reforms aimed at improving governance that lead to increased costs. For example, there are many demands on organizations to produce “side-products” besides their core business. This includes drafting of plans, policies, reports etc. Regardless of the outcome of these governance interventions, it is always the case that these attempts require resources and hence costs (Forssell & Ivarsson-Westerberg 2014).

Thirdly, are the *audit costs*; as a consequence of the increased autonomy the costs for control and monitoring will increase. In addition to the costs for the ones actually performing the auditing or procurement of services on the market, there are also costs for the actors being audited. It takes a lot of resources to be audited and especially in the health care sector there is a tendency of documenting too much just to be safe (Forssell & Ivarsson-Westerberg 2014).

Finally, there are the *customers’ free choice costs*; these are the administrative costs that arise when citizens are made into customers in a market-like system within public services. A phenomenon that has become increasingly common as a result of the so-called freedom reforms is the attempts to report and provide information about different services customers/citizens are able to choose from. That is one side of the customers’ free choice costs that occurs in organizations where information is gathered and databases are built up, but also in the organizations that can be chosen to market themselves. The other sides of the customers’ free choice costs lies with those who are expected to make rational decisions on the basis of the information and comparisons presented. Making rational choices can be very difficult as these individuals might not have the ability to make rational decisions and it causes anxiety (Barnes & Prior 1995, Glendinning 2008, Forssell & Ivarsson-Westerberg 2014).

With the introduction of LOV and the subsequent marketization, also follow the need to organize these markets. One way to illustrate how markets are organized is to compare them with organizations and how they are organized. In order to investigate if there are any possible commonalities present in our studied cases the findings by Ahrne & Brunsson (2008) were used. They have identified five typical characteristics of organizations that also apply to markets. Firstly, there is *membership*; membership can be used on markets to decide what actors that are allowed to offer their services or goods. An example is the requirement in some countries to belong to an organization in order to be allowed to offer taxi trips. Secondly, there is *hierarchy*; organizations



for sellers and buyers can implement hierarchy on markets. Members of an industry organization may be forced to follow certain ethical rules, allow themselves to be monitored etc. Thirdly, there are *rules*; rules on markets are for example specifications on how products need to be designed, nature of buyers and sellers, price levels etc. A lot of rules comes in the form of standards, i.e. non-binding rules. Fourthly, is *control*; control and surveillance are common on markets. There are many actors that control if standards and other rules are being followed. Furthermore there are actors that provide accreditation and certification based on their control. Finally, there are *sanctions*; control is often followed by sanctions, both positive and negative. For example the granting of certificates is positive and the rejection negative. Other sanctions include for prices, boycotts etc.

By using the presented theoretical framework when analyzing our gathered empirical material we hope to shed some light on the presence of these characteristics and possible dilemmas in our studied municipalities. As we mentioned there have been relatively few studies examining the effects of marketization on intra-organizational efficiency in the public sector. Furthermore the results from the existing studies in this field are non-coherent, the results are quite ambiguous with some suggesting improvements and others claiming that marketization is counter-productive. These kinds of studies are especially missing in the public sector, which is why we consider research in this area to fill a gap both in terms of incompleteness and inadequacy. Through our study we hope to gain further insights into the ambiguous views on the effects of marketization on efficiency. In addition to this, we aim to test the theoretical frameworks mentioned and either reject or confirm these theories as applicable on a real case (Locke & Golden-Biddle 1997).

### 3. METHODOLOGY OF OUR INVESTIGATION

Our methodology is based on a modified version of grounded theory in combination with abduction (Alvesson & Sköldbberg 2008), where two distinctive features are that the used and developed theory is derived from gathered data, and a view that is iterative or recursive, which means that collection of data and analysis are happening in parallel and reciprocally with each other (Bryman & Bell 2011). The *theoretical selection* of respondents and sources of information was thus made iteratively and based on previously gathered data, analytically constructed categories (in turn based on generated coding of transcribed interviews, etc.) and our perceived importance of these areas. Once *theoretical saturation* was achieved (i.e. the point where no new or relevant data emerge within a selected category) no more respondents or sources were approached.

#### 3.1 Selection

We have chosen to focus on three municipalities as we wanted to conduct in-depth interviews to understand how they handle regulations and directives from the state and what problems this translates into when they procure services from private contractors. The logic for choosing these specific municipalities was that they represented different forms of adaptation to the Swedish System for Freedom Act (LOV). Two of our chosen municipalities, Österåker and Hjo, have implemented the marketization reform (LOV), whereas Lessebo has not and hence serve as an appropriate comparison. The municipality of Lessebo does not allow for their inhabitants to choose their preferred provider, but they have conducted an investigation to find out if they should implement the reform. Right now the answer is no, but this could possibly change in the future, seeing that they still are affected by what is going on in other municipalities. Hjo has implemented LOV, but they have only two actors providing home care services including the municipality's own provider. Österåker has also implemented LOV and has come a long way in doing so with several different providers. The fact that the municipalities vary in size, geographically and in population, are noted and provided as background information, but is not regarded in our analysis of them.

The selection of interviewees was based on a stratified selection where representatives from differing organizational perspectives were selected. These included administrators, who are the ones handling the process of granting people services (biståndshandläggare), quality coordinators (kvalitetssamordnare), and operations managers (verksamhetsansvariga). Even though personnel who work directly with elderly in their homes are not directly part of the process of deciding services or granting hours, we felt that they could provide an important perspective on the issue, so they were also included. Although, we limited this to a single private field worker, who worked in the most developed market (Österåker), because we felt this was for us the most relevant perspective. This resulted in 14 interviews with 7 different individuals, consisting of 2 administrator, 2 quality coordinators, 2 operations managers, and 1 field worker. All interviews were telephone interviews ranging in length from 30 minutes to 1.5 hours. Shortcomings, such as not being able to see the respondent and thus be able to better decide if they correctly understand the questions and are giving honest answers (Bryman & Bell 2011), were somewhat mitigated by the fact that there were many similarities between respondent answers within each municipality. Of course, this could be due to the fact that they have agreed to conform on certain issues within

each municipality, but if this is the case face-to-face interviews would hardly gain any more insights. Once theoretical saturation was established in each category, no further interviews were conducted. This was achieved when no relevant new information was added from any interviewee and it more became a repetition of already given answers. Seeing that there were relatively few selected interviewees, saturation was still easily achieved because of the overlapping knowledge bases between many of the individuals. Even though their specific job title description may appear somewhat narrow, many of them were involved and had knowledge in other areas of the organization. A few of them had experiences from other municipalities before working at their current one, and almost all of them had experience of other, but similar, job assignments previously. Many of the questions, almost identical in nature, were asked in different ways to ensure covering many angles and to increase depth to the answers. All respondents were interviewed twice, which gave them the possibility to reflect on what they already had said, and fill in (and correct) where they believed it to be necessary.

We chose to conduct in-depth interviews to understand how the LOV reform has affected the municipalities' home care, its efficiency and organization, procurement process from private providers, and what potential problems this have translated into. The following is a table of all participants (not their real names) and their roles in the different municipalities.

<b>Lessebo</b>	
Johan	Operations Manager
Maria	Economic Supervisor
<b>Hjo</b>	
Axel	Operations Manager
Johanna	Quality Coordinator
<b>Österåker</b>	
Lars	Quality Coordinator
Magdalena	Administrator
Sofia	Field Worker (Private Contractor)

*Table 1. Interview respondents*

### 3.2 Research Method

When we decided to conduct a qualitative study, we evaluated both the feasibility of performing a quantitative study, and the pros and cons of a qualitative study versus a quantitative one. As we have already mentioned, measuring efficiency in the public sector and the home care sector is difficult and since measuring is a typical characteristic of quantitative studies, this was a strong

reason for not pursuing such a study. Furthermore, critiques of quantitative studies argue that the measurement process contains an unreasonable feeling of precision and accuracy. There are many reasons for why this is not the case, for example, people do not interpret questions they receive in the same way (Bryman & Bell 2011).

Quantitative studies often focus on the importance of being able to replicate a study. Therefore, quantitative researchers often emphasize the importance of objectivity. Although we also recognize the importance of this, we found that we needed to interpret what our interviewees said in order to gain an understanding of this. We need to take into account differences between nature and society, and the fact that people interpret the world they live in. The difficulty of replicating a study will affect external reliability according to some researchers. This is typical for qualitative studies, as it is hard to “freeze” a social environment. However, there are ways to overcome this, such as the researcher replicating the study to enter a similar social role as the previous researchers. Additional critique of quantitative studies includes reliance on measuring and measuring procedures meaning that the connection between research and everyday life becomes more difficult. For example, people might answer a question that is aimed at measuring their motives for working, but their actual behavior do not necessarily have to correspond to how they answer. The analysis of the relations between various variables leads to a static image of the social that is not dependent of how people live their lives (Bryman & Bell 2011).

There are naturally common critiques for qualitative studies as well. These include that they are too subjective, hard to replicate, hard to generalize, and that they lack transparency. Regarding the generalization to other environments and situations, this is naturally a problem due to the tendency of using case studies and a limited sample. However, we agree with those researchers that argue that the results from qualitative research should not be generalized to a larger population, but rather to theory. Lack of transparency normally includes critique of lacking specific information about how the investigation was planned and conducted. We aim to overcome this problem through a thorough description in this methodology section. When assessing quality of research it is common to assess validity and reliability, however it is not sure that using these criteria are the most appropriate for evaluating qualitative studies, there are several other alternatives and the debate is still ongoing. One competing view is to assess trustworthiness and authenticity instead. If criticizing according to reliability and validity we have pointed to two things to support our approach; the possibility of entering a similar social role as the previous researcher and the idea of generalizing to theory instead of another or larger population. Finally, we believe that we have ensured research quality by recording all interviews, conducting follow-ups and allowing for potential clarifications (Bryman & Bell 2011).

Following our modified grounded theory approach, we codified our empirical findings by collecting them under different unifying “labels”, which we then further refined into the categories we have used as headings under each municipality. As before, this was an iterative process, where data together with theory were used in the development of these categories.

### 3.3 Research Design

Extensive research of information from several sources made us able to construct an interview structure for the upcoming conversations with the responsible municipality employees that

manage the granting of time and services for individuals in the municipalities, and those who manage the actual procurement process with the contractors, as well as those overseeing the whole operation. These sources included the Swedish Association of Local Authorities and Regions (Sveriges Kommuner och Landsting – SKL), which represents the governmental, professional and employer-related interest of Sweden's 290 municipalities and 20 county councils/regions. We also found useful information from the Swedish Competition Authority (Konkurrensverket), a state authority working to safeguard and increase competition and supervise public procurement in Sweden. Finally, supplemental materials were available on the System of Choice Web (Valfrihetswebben), which is the national website for publishing contract notices for services under the Swedish System for Freedom Act (LOV).

We started our interview design process pretty wide in our research area, but quickly discerned more specific areas of questions. The themes that developed were structured into three areas, evaluating and implementing LOV, effects and discrepancies, and control and administration. The first theme focus on how they go about granting time and services, what guidelines they have, perceived effects of implementing LOV, how they administer operations, etc. The second theme is about efficiency gains and potential problems. Finally, our third theme relates to additional costs concerning control and administration, what potential problems there might be, what has been the effect on efficiency versus the administrative burden, etc. For the full list of our questions please see appendix 8.1.

After conducting our first round of interviews we had a good grasp of the overall picture, and since we asked each participant if they would be available for possible follow-up questions, we also did a second round of interviews. This time we focused more on our research question, i.e. how marketization has affected efficiency, and hence asked our interviewees more specific questions about efficiency gains and various transaction costs that have arisen as a result of the implementation of an external market. See appendix 8.2.

In our interviews we chose to use a semi-structured approach to allow for interviewees to speak freely about related issues, but still adhere to the themes we constructed. This gave us a structure with enough flexibility to also capture highly differing viewpoints (Bryman & Bell 2011). After conducting our interviews we summarized our findings and analyzed them using our theoretical framework.

### 3.4 Secondary Data

In addition to conducting interviews with relevant municipality representatives we used public accessible data. This includes information that can be extracted from the Swedish Association of Local Authorities and Regions (SKL), the Swedish Competition Authority, the System of Choice Web, and from the municipalities' annual reports, budget, goals, and websites, etc.

## 4. PRESENTATIONS AND FINDINGS OF THREE MUNICIPALITIES

Looking at our chosen sample our purpose has been to select municipalities that have chosen different paths. The municipality of Lessebo has not implemented LOV, i.e. they do not allow their inhabitants to choose their preferred provider, but they have conducted a study to find out if they should. They also considered what positive aspects of LOV they could implement in their way of working without actually introducing the reform. The municipality of Hjo has implemented LOV, but they have not proceeded that far and still only have one private provider. The municipality with the most developed LOV system is Österåker with currently seven service providers.

### 4.1 Introduction of LOV

To fully grasp what the introduction of LOV in municipalities means, it is necessary to elaborate on what the LOV reform more specifically entails. The Swedish System for Freedom Act (Lagen Om valfrihetssystem - LOV) is a reform that was enacted in 2009 and entered into force January 1, 2009. The law regulates the possibility to choose between different providers active on health and social service markets. It is mandatory for all the counties to have LOV in the primary elderly care as of January 2010. In the county councils' and municipalities' other operations such as care taking of people with disabilities, home care, family counselling and social psychiatry, decision-makers are however free to choose whether to implement LOV or not. Hence in our case, assessing home care, customer choice is only possible in municipalities that have chosen to implement the reform. The neoclassical market approach is reflected in the legal requirements of official advertising and transparency, which is believed to give customers and suppliers alike free access to information about future and ongoing procurements. Municipalities are obliged to advertise what they are looking to procure on the System of Choice Web, [www.valfrihetswebben.se](http://www.valfrihetswebben.se), operated by the Legal, Financial and Administrative Services Agency (Kammarkollegiet). The procurement process is strict and influenced by EU-law, such as the requirement that all applications should be evaluated equally and that extensive information must be made public. If a private actor fulfills the requirements they will be allowed to offer their services to the municipality's inhabitants. The municipality is accountable for providing relevant decision making material for its inhabitants in order for them to make informed decisions. Furthermore, the service providers are also allowed to market themselves to potential customers. Even if the municipality allows a private actor to enter the market, there is no guarantee that they will get any customers as this will now work as a market. Regardless of what supplier (private or the municipality operated) the customer selects, the municipality pays the bill (Kammarkollegiet 2012:4.1).

### 4.2 Österåker

The municipality of Österåker is located in the Stockholm area, with its county seat being Åkersberga. Out of the total 290 municipalities in Sweden, Österåker is number 233 in terms of size with an area of approximately 323,3 km<sup>2</sup>. The municipality has 41,858 inhabitants which makes it the 58th largest municipality in Sweden in terms of population. In terms of population density, this translates into a ratio of 134 inhabitants per km<sup>2</sup>, placing Österåker as the 41st municipality in terms of population density. The size of the population in the municipality of Österåker has increased quite a lot over time, in 1970 the municipality had 15,527 inhabitants, in

1990 30,230 inhabitants and in 2005 they had 37,336 inhabitants. Österåker is one of Sweden's fastest growing municipalities with an estimated population increase of 400 inhabitants per year. LOV was implemented in the municipality in December 2009. The municipality has a tradition of a right wing government and the outcome of the most recent election was a government consisting of the four right wing Alliance parties (Moderaterna, Centerpartiet, Folkpartiet and Kristdemokraterna) in combination with the local Österåker party. In the municipality of Österåker there are a total of seven home care providers including the municipality's own provider. The other six private providers are Buhres hemtjänst, Camillas hemtjänst, Hemjänstkompaniet, HSB Omsorg, Olivia Hemtjänst, RO Omsorg. All of the six private providers offers additional services that the customers need to pay for separately. On their websites they also market themselves as specialists in certain area and market their extensive language skills, some service providers claim that they can provide up to 10 different languages (Municipality of Österåker 2014 & SCB 2015).

#### 4.2.1 Directives and Interpretations

In Österåker they follow the directives stated in Social Services Act and LOV, but since the Social Services Act is only a frame law there are some interpretations, for instance how to interpret the notion of "reasonable living standard". An example would be that Österåker has a special guideline for cleaning that could be different from other municipalities. Being that the administrators follow the Social Services Act they still take different decisions because of subjective interpretation of the law and of the expressed need of each individual customer. This is a problem, according to Sofia who is working at a private service provider, and could be remedied by letting all administrators spend some time out in the field. She believes they would get a much better grip of how long different activities take and become more uniform in their judgment. It is not enough to just make one initial visit at a customer, because needs and circumstances change along the way, and in that case it is up to the customers or their relatives to bring this forward to the municipality.

#### 4.2.2 Templates and Standards

Along with individual assessments Österåker use time templates when converting individual needs into actual time to be provided by the service provider. They have done extensive work with developing a model to calculate this time. Together with a healthcare consultant, they assessed historical numbers and took coordination gains into account. They used to calculate each service on its own and then just added those numbers. Now they also look at the fact that some services can be performed simultaneously, such as cooking and cleaning for example. The new model is perceived to be more accurate, especially because consideration is taken to these coordination effects, but still the discrepancy between granted and performed time is quite substantial. This is most prominent with the municipality's own home care provider's reported performed time versus granted time. Österåker reimburses providers based on performed time but do not see any large problems with this solution, maybe that some private providers take a bit longer time than would actually be required. Since they can somewhat compare with their in-house provider they can see that this is more common among private providers. Lars, a quality coordinator, also mentioned that private providers often influence individuals to call the municipality to say that they require additional time. Although Sofia claims that it is not the amount of hours granted that is the biggest problem, it is the factual distribution of these hours. Some customers get too much, others too

little. She believes the more experienced administrators are better at this, but she also believes that the administrators are affected by the municipality's wish to save money, which makes them less prone to look to the need of each individual. Seeing that it is the municipality's responsibility to make sure that a sufficient level of quality is supplied, LOV has meant that it is more complicated to make sure that this is actually the case, as they now have to assess several providers. Taking the perspective of the customer, some measures have been taken recently to standardize and simplify the process of choosing service provider. In 2014 the municipality launched a new website where inhabitants can compare available services within various areas such as education and home care. (Österåker Annual Report 2014)

The National Board of Health and Welfare (Socialstyrelsen) has lately been introducing an initiative called Elderly's Needs In Focus (Äldres behov i centrum - ÄBIC). This is a standardization effort to make every administrators' judgments more uniform, but its main purpose is to emphasize and address each individual's specific need. Magdalena thinks that the ÄBIC initiative is a real improvement since the decisions become more transparent for each customer, but it involves more thinking, new ways of working, and it needs to be incorporated into their systems. This is of course time consuming and demands administrative resources, but she believes the benefits are worth it, and the response from customers and their relatives has been good. The implementation of ÄBIC is not completely finished, but Österåker is at the leading edge.

#### 4.2.3 Efficiency and Administration

In Österåker there is no real aggregated measure of efficiency, and granted time is mostly affected by the varying needs of the population. This makes it hard to judge if there has been any increased efficiency in the operations and when looking at the granted time there is no clear difference since before LOV. Sofia says that more time is spent at logging everything that has been done at the customer, but that they have a pretty good system.

Since the implementation of LOV, from the municipality's perspective, it has become more complex as the number of counterparts has increased. One aspect of this is that just the handling and controlling of invoices are now much more resource demanding. Lars also mentioned a problem with food distribution in Österåker. Food for the home care sector is produced centrally by the municipality and then distributed by whatever provider each individual has selected. This is one area he believes is problematic with multiple providers and the municipality of Österåker has experienced reoccurring problems with private providers not returning equipment after delivering food and other similar problems. The process of choosing and accrediting service providers takes resources and after this process comes the workload of the control and logging of their actions. Sometimes the data system breaks down and there has to be lots of manual labor. There are regular meetings with all six service providers, but sometimes it can be problematic to handle private providers and assess their quality. The municipality has comprehensive standards that all providers must comply to, but sometimes private providers simply claim that they live up to all requirements and that might sometimes not be true. When the municipality excludes such actors, or when private actors for some reason decide to stop their operations, it becomes problematic for the inhabitants who have to go through the whole process of choosing a new provider again. As a result of these changes in ways of operating, the number of employees in the



municipality's aid department has doubled over a ten years period and this is mainly administrative personnel.

Another perceived problem is that the increase of service providers has made the personnel turnover higher. This can lead to decreased quality and is perceived very negatively by the customers. For many elderly it is important to see the same personnel in order to build trust and create social comfort. On the other hand the increased number of service providers has made it possible to offer more and more specific services, such as providers speaking the native language of the customer. All in all, the satisfaction level increased among home care recipients in 2014. Nine out of ten feel that the staff takes into account their wishes and just as many are overall satisfied with their home care services (*Municipality of Österåker*).

#### 4.2.4 Market and Choice

The home care market in Österåker is perceived to be of sufficient size to attract private service providers and this fact can also cause not so serious providers to offer their services, but Lars thinks that the marketization of the home care sector has led to more equitable decisions. For example, to ensure competitive neutrality, the administrators have their office separate from the municipality's own home care provider. Even if there is no discernable difference in granted time he maintains that there are considerable advantages for the customer with more choices of providers and additional services. Although, these extra providers require that the municipality puts more work into informing the customers about them, and there is always the risk that some of them will disappear from the market. If this happens the free choice process needs to be repeated again, which can be time consuming. Furthermore, the process of certifying new providers is resource demanding and resulted in the approval of three new home care providers in 2014 (Municipality of Österåker). Magdalena claims that even though the private service provider do their own marketing they still need to check that the information is correct. For example, if there is claims of language knowledge that actually do not exist, they have to revise the information and marketing. The municipality is not allowed to recommend any service provider, but is allowed to answer questions from customers and their relatives. The service provider must provide the customer information about personnel turnover in order for the elderly to be able to make an informed decision regarding this.

*“In terms of quality, I would say that there is no difference between the municipality operated service provider and the private providers” – Magdalena*

Lars believes that from the individual's perspective it is of course good to be able to choose what provider they prefer, but he also mentioned the fact that many individuals in need of home care services are old and not in the best shape to make decisions. In those cases it can be hard for them to assimilate all knowledge necessary about each service provider to make a rational decision.

#### 4.3 Hjo

The municipality of Hjo is a municipality located in the Västergötland area, close to Lake Vättern. Out of the total 290 municipalities in Sweden, Hjo is number 172 in terms of size with an area of approximately 584,5 km<sup>2</sup>. The municipality has 8,940 inhabitants which makes it the 234th largest municipality in Sweden in terms of population. In terms of population density, this translates into

a ratio of 30.1 inhabitants per km<sup>2</sup>, placing Hjo as the 139th municipality in terms of population density. The size of the population in the municipality of Hjo has remained fairly constant over time, in 1970 the municipality had 7,343 inhabitants, in 1990 9,136 inhabitants and in 2005 they had 8,849 inhabitants. The municipality is governed by an alliance of right wing parties (Moderaterna, Centerpartiet, Folkpartiet and Kristdemokraterna). As of January 1 in 2012 Hjo has been working with LOV. Since the reform was implemented, there are now two providers of home care services. The providers are the municipality's own provider and a private company called CL-Städsservice AB that besides ordinary home cleaning can provide additional service that need to be paid by the individuals such as removing snow, fixing in the garden etc. (Municipality of Hjo & SCB 2015).

#### 4.3.1 Directives and Interpretations

As in the case of Österåker the administrators in Hjo follow guidelines set out by the Social Services Act, but Axel, operations manager, explains that some local variations exist depending on what decisions local politicians have made. In the case of LOV it has mainly told municipalities that they should allow both their own provider and private providers to offer individuals their services.

*“In financial discussion with the municipality leadership, it is comfortable to be able to lean on and refer to Social Services Act that says we should only look at the individuals’ needs, not how the services should be financed.” - Administrator*

A consequence of LOV is that they need to more accurately specify the time certain services should take, i.e. granted time. Johanna, quality coordinator, says

*“Prior to LOV we could just say, we need more resources and receive additional resources without a lot of effort, now we need to show why we need to increase the budget.” – Quality coordinator*

As there are now private providers as well the municipality needs to translate everything into time which makes it important for the administrators to follow up and see how much time is actually performed. Axel thinks that the administrators are really following the guidelines given in the Social Services Act, since they see themselves as responsible for satisfying individuals’ needs, and not considering time and costs. Their only concern is to make sure that the individuals are granted the services they require. This reasoning comes back when asked about LOV, the administrators do not care whether the service is performed by the municipality's own provider or a private provider, as long as the quality is good and the individual's need is satisfied. Since the Social Services Act is only a frame law there will always be some amount of subjectivity. Johanna explains that every municipality has different ways of working, even though the needs could be the same, the methods used to attend to the customers' needs are usually different.

#### 4.3.2 Templates and Standards

Axel explains that they handle applications in accordance with the Social Services Act; they receive the application, assess the individual's needs, grant specific services and finally convert these services into time using time templates. The time templates give estimated granted times, but these times are flexible to each specific individual needs. However the municipality of Hjo has a problem as the calculated time for the services is higher than the actual time required to satisfy

the individual's needs, i.e. performed time. On average home care providers perform about 70% of the calculated granted time. When Hjo implemented LOV they evaluated two different incentive systems, paying for granted time or performed time. They concluded that it is better to pay for performed time as this gives the home care providers ability to really take their time and give the individuals the help they need. An interesting fact Johanna mentioned is that the municipality's own home care provider consistently perform around 70% of granted time whereas the private actor make sure to perform 100% of granted time, most likely due to the fact that private companies have an economic incentive to increase revenues as much as possible. She says that they have not made any recent adjustment to the time templates, but that they will likely do this in the near future.

Axel says that complexity has increased, but the requirement to document has been around for a long time. He believes a new initiative from the National Board of Health and Welfare, Elderly's Needs In Focus (ÄBIC) will likely clarify much. He thinks this directive will facilitate the documentation process, and the process in general from application to the actual service performance, and later feedback. A lot of municipalities are working with this now and this will be an attempt to standardize some aspects across municipalities. It is not yet a requirement from the National Board of Health and Welfare to work in accordance with this system, but he thinks it will likely be the case in the future. The National Board of Health and Welfare will collect data on a municipality level and if a municipality does not have this system in place they most likely would need to hire a person just handling and preparing the data in accordance with this system. Although Axel thinks things will become more standardized there will still be large variations among municipalities.

#### 4.3.3 Efficiency and Administration

Hjo only has the efficiency measure of granted and performed time, which Axel believes is a sub-standard way of capturing reality. For example, he thinks that the main reason for the discrepancy between granted and performed time is that the granted time does not take into account certain co-ordination benefits. As an example, if one individual has been granted help with breakfast and putting on socks, it might be the case that the home care provider can boil the eggs while helping the individual to put on their socks, and this might save 10 minutes. He says:

*"The private providers have the incentive not to tell them about these coordination benefits, as they get paid by the number of hours performed, giving them the interest of performing as many hours as possible."*

But since Hjo also has an in-house provider there is a possibility for them to somewhat compare the hours actually needed.

Even though the LOV reform in Hjo has not led to a great number of options for the individuals, it has forced the municipality to address things they previously ignored, and both control and transparency have increased as a result of this process. For example, the standards of the tender documents have gone up, but by making the documentation more comprehensive the drawback is that it might take up to 48 hours to get a specific service delivered, this used to be possible much sooner. Another example is that since they started to measure how much time various services

take the result has been better decision making material in the process of granting time, although this has also resulted in additional use of time and resources. Johanna says that the providers initially somewhat rejected the increased control, but the process of increased control and documentation was actually started before LOV was introduced, which made the providers to some extent accustomed to it. She says the major frustration has instead been that the time schedules produced not necessarily corresponds with reality. 2014 was a tough year for the home care operations in Hjo. Increased demands on productivity, the implementation of a new planning tool, new schedules etc. have led to a perceived lower quality of working conditions for the municipality's employees. Furthermore, in a home care customer satisfaction survey, inhabitants express a relatively low level of satisfaction. The level of satisfaction in Hjo was 81% in 2014, compared to the national average of 89%. An explanatory variable is believed to be that there have been a lot of different service providers aiding the customers.

#### 4.3.4 Market and Choice

In early 2014 the so called New Home Care was evaluated, i.e. the transition work that has been taking place during 2012 and 2013 in order to adjust the operations to the demands of the freedom of choice system (LOV). With this evaluation, the municipality got a receipt that the transition has implied both improvement and deteriorations. One improvement that had occurred was that by changing the planning it has been ensured that customers receive all the visits they are entitled to. The alarms from customers have also decreased as a result of this. Slight improvements in productivity could be seen in the results, but not enough to reach the financial goals. However, depending on how to measure productivity the results are ambiguous. If you look at the number of persons that received home care services the municipality states that it has decreased from 255 persons in 2012 to 235 persons in 2014. However the number of hours per month connected to the LOV compensation has increased from 2,800 in 2012 to 2,963 in 2014. A deterioration that has taken place is that staff continuity has been negatively affected, i.e. more service providers than prior to the reform are visiting a customer's home during a week. The staff is also experiencing deterioration in psychosocial work environment. At the same time, most customers are satisfied with how the services have been performed and the providers feel that they are given enough resources. The perceived level of influence has increased, which is considered a positive thing for the people receiving the services. Hence, the home care had been assigned to continuing working with improvements in continuity and financial control. This has been done partly through training and dialogue meetings with staff groups (Municipality of Hjo).

*"The transition to a freedom of choice system (LOV) has been greater than we initially could understand. Adequate resources have not been deployed in time to lead the change process"* (Municipality of Hjo).

Axel believes that the work done so far has meant increased turbulence in the home care sector. Too much is supposed to happen in too short time. There has been a lot of changes that the personnel has not always been fully supportive of. There are also faults in the LOV system when it comes to ordering and performing, since this is not always done in the same way. For instance, the in-house provider performs more than LOV commitments and these are not ordered and registered in the same way as for other service providers. On the other hand, the increased distance between service providers and administrators are viewed as positive from the municipality's

perspective, seeing that it diminishes subjective inference and the way decisions is made has become more formal. In a way it has become more in line with the rule of law and as in the case of Österåker, to ensure competitive neutrality, the administrators have their office separate from the municipality's own home care provider.

Even though they have only one private service provider they still have had to devote considerable time in explaining laws, ways of working etc. in order to make things work with execution plans etc. Adding to this, to be able to review material from external providers they needed to have a task force assembled. The private service provider has not always met the demands put on them and the municipality has needed to address this. One activity that private service providers deemed unprofitable to them were food distribution, which made it necessary for the municipality to handle this even if it made them lose money. Seeing that the market of Hjo is not large enough to attract many private service providers a new committee is now instated to review the situation and try to attract more companies. One view held in the organization is that because of the lacking number of private providers they do not see it as much of a market at all, but the politicians who made the decision to implement LOV prefer to talk about it as such.

#### 4.4 Lessebo

The municipality of Lessebo is a municipality located in the Småland area. Out of the total 290 municipalities in Sweden, Lessebo is number 195 in terms of size with an area of approximately 456.4 km<sup>2</sup>. The municipality has 8,401 inhabitants which makes it the 195th largest municipality in Sweden in terms of population. In terms of population density, this translates into a ratio of 20.4 inhabitants per km<sup>2</sup>, placing Lessebo as the 173rd municipality in terms of population density. The size of the population in the municipality of Lessebo has remained fairly constant over time, in 1970 the municipality had 8,449 inhabitants, in 1990 8,933 inhabitants and in 2005 they had 8,127 inhabitants. The municipality has not implemented LOV yet and hence there is only one provider available for the municipality's inhabitants. They conducted an investigation a couple of years ago to assess how an implementation would look like but chose not to go forward with it. First they decided to implement LOV, but subsequently changed the wording of their decision to that it should be implemented in the future. Now it seems like they have decided not to pursue this at all and from our interview there seems to be no rush to implement the LOV reform. Regarding the government in Lessebo, it has been governed by the left wing parties for a long time, with the Social Democratic party having approximately 46% of the mandates (Municipality of Lessebo & SCB 2015).

##### 4.4.1 Directives and Interpretations

As in the other municipalities the administrators follow the guidelines set by the Social Services Act, but Maria says that because administrators are people there will always be subjective judgments. There are no directives that tell exactly how things should be. Instead she sees an opportunity for politics to be more active in operations, and in doing that also construct more precise goals. Right now these goals are too vague and stated like "remain quality with reduced costs". Seeing that there is no precise definition of what "quality" is, it is difficult to exactly know what this entails. In 2012 Lessebo produced some background material in order to better be able to decide if they should implement LOV or not. The first decision was yes, but was later revised to a no. The municipality felt it was in spirit with the time, the government talked about it becoming

mandatory, but there was not enough political will and it was deemed that the market was too small. Because LOV has not been implemented in Lessebo the effects of it is of course miniscule, although not without existence. This is because the investigation made in order to decide of its possible implementation made the municipality scrutinize its activities. When doing this problem areas were revealed, especially in the case of resource distribution, and some measures were taken to deal with this problem. Also the effect of other municipalities implementing LOV has influenced Lessebo to some extent.

#### 4.4.2 Templates and Standards

Lessebo follows the same procedures as the other municipalities when it comes to time templates, and they also see that the granted time is higher than the actual performed time. This is likewise contributed to the effect of not taking coordination effects into account, but this problem is currently being worked on. Another thing to notice is that Lessebo does not work with Elderly's Needs In Focus (ÄBIC) yet, but Johan believes it will become mandatory in the future. The hope is that this initiative will ease the burden of documentation instead of increasing it.

#### 4.4.3 Efficiency and Administration

Lessebo does not specifically measure efficiency, they mostly only take into consideration the effects of changing needs of their customers. Although the scrutiny of their operations conducted before the decision of implementing LOV was made, gave them insights into where they could be more efficient, such as better ways of calculating time for services provided.

Home care services have the responsibility to document their operations even without LOV and Lessebo is, as all municipalities, subjected to spot checks done by the Health and Social Care Inspectorate (Inspektionen för vård och omsorg - IVO) in order to control if the administrators follow the directives set by the Social Services Act. Various increasing demands of control have resulted in more administration, such as more realization plans, documentation, statistics, etc. However, as they have not implemented LOV we saw that they lack certain administration elements that the other municipalities have. The number of personnel is actually lower now than 10-15 years ago. At the same time Lessebo remains a municipality with a high quality within the elderly care, all home care customers are either satisfied or very satisfied with the quality of the services they are receiving (*Municipality of Lessebo*).

#### 4.4.4 Market and Choice

Even if they feel that Lessebo with just around 8000 inhabitants might be too small to be an attractive market, they still believe that there was important lessons learned in conducting the pre-LOV investigation. It has helped the organization to change its ways. Johan believes there is some sense of "market-think" in the organization today, but he thinks that the municipality could perform all tasks as well as any private actor.

## 5. ANALYSIS OF MUNICIPAL FINDINGS

In this chapter we connect and compare our findings with our chosen theoretical framework. This is done to evaluate if our cases support, enhance, clarify or even contradict prevailing theory in this subject area. There are also attempts to investigate links between different theories and our constructed empirical categories, as well as between the categories themselves.

### 5.1 Typical Models of New Public Management

To see if there were organizational changes made in the studied municipalities that follow the typical characteristics of New Public Management initiatives we compare our selected organizations to the by Forssell & Ivarsson-Westerberg (2014) recognized typical models of NPM. These models entail; introduction of smaller units, profit centers and the mix of public and private; introduction of the internal market and contract relationships; focus on governance and management practices from the private sector; enhanced budgetary discipline and cost consciousness; emphasis on direct leadership; pronounced formal measurable standards and targets and measuring of performance; and increased emphasis on productivity.

The introduction of LOV in the municipalities is a direct case of mixing public and private, being that LOV's main message is that municipalities should allow both their own as well as private service providers. Even if this initiative has increased complexity and put higher demands on accurate measurements and follow-ups, two of the municipalities (Österåker and Hjo) still try hard to attract private actors. The mix has also created some other problems, such as in Hjo where there are differing ways of ordering and evaluating performance between public and private service providers. If we compare to the case of Lessebo, being that they have not implemented LOV no such mixing of public and private exists.

The splitting up of departments in Hjo and Österåker is an aspect of creating an internal market as well as a legal requirement according to LOV. Contracts have to be written with all service providers and the municipalities have carefully drafted standards for them to follow. In many cases these regulations are not adhered to and some reoccurring problems appear, such as private service providers not returning equipment in Österåker. In order to make sure the service providers follow the stipulated contracts increased control has been necessary, this control also extends to reviewing the information and marketing of each provider. A benefit is the possibility to outsource extra, earlier non-existent, services such as snow removal etc., and the increased distance between contractor and provider is by some perceived as lessening the influence of subjectivity and to be more in line with the rule of law.

A common view is that the marketization has meant that municipalities have needed to address things they previously ignored, which has increased control and transparency and that this in turn has led to more equitable decisions. Although, this increased control was initially somewhat rejected by the service providers. There is a perceived increased administrative burden seeing that more work is demanded to produce management material, such as realization plans, documents, and statistics.

In order to increase efficiency and cut down costs Österåker has done extensive work with developing a more accurate model of converting customers' needs into time units. All three municipalities have discovered coordination gains that can reduce the number of calculated granted hours, and Österåker has come furthest in incorporating this into a system. Also the reimbursement system is taken into consideration, where special care is taken to the incentives given to the service providers in order to strike a balance between maintained quality and cost consciousness. The efforts of cost reduction have had some other unforeseen issues as well, such as the fact that in Hjo private service providers deemed food distribution to be unprofitable to them, which made it necessary for the municipality itself to handle this at a loss. Even though Lessebo does not have LOV they still scrutinized their activities in making that decision. This led to an increased cost consciousness although without actually implementing the system, for example they also work on incorporating coordination effects.

In all municipalities they have put extensive work into constructing more accurate models of converting the needs of the customers into a standardized time format. Since the introduction of LOV the demands of accuracy have increased, which have made the municipalities seek help outside the organization in the form of consulting firms. Together they have then discussed and developed new ways of measure. This has of course entailed a cost, but it is a cost they hope to cover in increased efficiency. Something most municipalities found out were that it is not the number of granted hours that is the biggest problem, it is rather the incorrect distribution of them. An initiative that has been started to rectify and standardize this issue is Elderly's Needs In Focus (ÄBIC). Even though many believe this effort will make things better and decisions more transparent it will need to be incorporated into existing systems. This means new ways of thinking and working, which will of course require both time and resources. In fact in Hjo they believe that they most likely will need to hire a person just to handle and prepare the data needed for this system.

Seeing that there is increased focus on performance in all three municipalities it might come as a surprise that not one of them has any specific aggregated measure of efficiency, which of course make it hard to judge if any efficiency gains have been made. A related case in point is the stated political goal in Lessebo of "remain quality with reduced costs" without defining what "quality" really entails. A thing to notice though is that no real differences can be seen in the number of granted hours given in any of the municipalities. This figure seems to be only determined by the varying underlying need of the customers, such as due to an elderly peak or a larger number of cancer patients etc. On the other side of the equation there are more discernable effects on increased administration, such as the need to accredit, log, and control the service providers and their activities.

There is lot of effort put into increasing productivity, such as calculating coordination effects, evaluating incentives, standardizing, scrutinizing different parts of organizational activities, etc. In Hjo they claim that they can see slight improvements in productivity, but that these were not large enough to reach the financial goals, and if considering how to actually measure, these results were ambiguous. What can be more clearly seen though are the administrative costs.



## 5.2 Transaction Costs

As a part of our analysis we will use the framework concerning transaction costs presented previously by Forssell and Ivarsson-Westerberg. In their research, they had identified four types of transaction costs (internal organizational costs, control costs, audit costs and customers' free choice costs) which we found useful when assessing the effects of marketization and potential efficiency gains or losses.

*Internal organizational costs:* Typically more organizational units are created as a result of marketization which increases the administrative relationships and in turn resulting in transaction costs through the increased need of coordination and governance. Furthermore, with an increasing focus on procuring services on a competitive market the amount of resources spent on administrating and coordinating this has increased for public organizations (Forssell & Ivarsson-Westerberg 2014).

In our view this was particularly evident in the municipality of Österåker. As a result of the LOV reform there are now a total of seven home care providers, including the municipality's own. Hence, handling all these relationships has become more complex and resource consuming as the number of counterparts has increased. In our empiric description we mentioned the example of food distribution which fits right into this category. The transaction costs in the form of resources spent on coordination have increased as the municipality's division cooking the food needs to track what equipment they have and what service provider that has been using it. As this is a recurring problem it is not unlikely that they will somehow try to implement more governance to make sure that everyone "behaves", but this will naturally increase transaction costs further. In the municipality of Hjo they have not experienced this specific problem as the only private providers found the food distribution service unprofitable and left it to the municipality to handle. Even though they only have one private provider as a result of LOV, they have still been forced to devote significant internal organizational costs as they need to explain laws, ways of working, drafting of execution plans etc. Another cost relates to the tender process, municipalities with LOV are required to post detailed advertisements on the System of Choice Web to make it possible for everyone to apply to be a service provider.

Another consequence of the LOV reform is that the distance between the people performing the service and the ones handling the procurement/granting of services has increased. To ensure competitive rivalry the procurement/granting services department has been separated from the municipality's own provider in municipalities with LOV (Österåker and Hjo) as sitting next to each other might give them an advantage compared to the private providers. This distance has caused some problems, which came up in our interview with an employee at a private home care provider. She was frustrated because it was hard to get in touch with the administrators and explain how much time performing certain services take. However, operating as a market makes it important to diminish subjective interference and formalize decisions to avoid criticism and therefore this was viewed as positive by some. Regardless of opinion, it is clear that this has increased the internal organizational costs.

In Hjo, the staff had been experiencing deterioration in their work environment. Furthermore, the municipality required the home care department to work more with financial control. In an effort to improve this, there have been more internal organizational costs introduced because of various training sessions and dialogue meetings with staff groups.

Our “control” municipality, Lessebo, devoted some resources to investigate how an implementation of LOV would look like. This surfaced some of the problems in their current operations, for example an inefficient use of resources. In other words they received some benefits of the marketization mindset without receiving the associated transaction costs as the other municipalities did.

*Control costs:* Reforms aimed at improving governance will likely result in increased costs. Producing “side-products” such as drafting of plans, policies, reports etc. are typical control costs. Regardless of the outcome of these governance interventions it is always the case that these attempts requires resources and hence costs (Forssell & Ivarsson-Westerberg 2014).

From our interviews we got the impression that the standards of the tender documents, especially in the municipalities with LOV, have increased and become more complex. Furthermore, as a result of marketization and the LOV reform, demands on specifying time for various home care services have increased. To become more accurate all of the municipalities we have interviewed have spent resources on developing their templates for converting individuals’ needs into time. Even though the new templates are perceived as more accurate, we learned from our interview with Österåker that the discrepancy between granted and performed time is still quite substantial. As an example, the performed time in Hjo was only about 70% of the granted time. When Hjo implemented LOV they had to draft a policy for how to construct their incentive system; either paying for granted time or performed time. They chose to pay for performed time in order not to incentivize the service providers to rush. There are arguments for different incentive systems, but regardless we saw some control costs as the municipality needed to draft policies for governance purposes. In addition to working more with templates, we got the impression that LOV has put increased demands on productivity in Hjo. The employees have been forced to work more with a new planning tool, new schedules and so on. Another example that corresponds to what Forsell & Ivarsson-Westerberg (2014) describes as “side-products” is the way the home care division asks for resources. The quality coordinator in Hjo said, “*Prior to LOV we could just say, we need more resources and receive additional resources without a lot of effort, now we need to show why we need to increase the budget*”. Besides taking a lot of time and resources, the mentioned control costs had a clear negative impact on the perceived quality of working conditions for the municipality’s employees.

*Audit costs:* When marketization is implemented, autonomy increases and hence costs for control and monitoring will appear. There are two sides of these costs, both for the ones doing the auditing but also for the ones being audited as they will likely prepare for it. Theory also points to the special nature of the health care sector where there is a tendency of documenting too much just to be safe (Forssell & Ivarsson-Westerberg 2014).

We have mentioned the discrepancy between granted and performed time and we saw that this has also created audit costs. With the incentives being directed towards performed time, we learned from our interviews that private actors have a tendency of working “slower”. One way the municipalities have realized this is to compare with how long specific services take for private providers and compare it with the municipality’s own provider (lacking the same focus on profit seeking). With the new templates, coordination benefits have become more transparent but the municipality has some trouble finding out about such gains from private providers as they have no incentive to tell them about these coordination effects. Therefore it becomes necessary to audit them in order to control the actual situation. In an attempt to receive more granted time, private providers often try to influence their customers to get them to call the municipality and say that they require more time. When the municipality asks these individuals if they really need more time it regularly is the case that they do not need more time at all.

Other auditing costs include the process of certifying new actors that are to be available for customers. The municipality has a long list of requirements and sometimes it happens that potential market entrants claim that they live up to all requirements. This can of course be problematic for the municipality to know if it is true or not and hence auditing is often necessary. In the most developed LOV municipality, Österåker, we learnt that they have after some time excluded some actors that were first certified which led to some customer free choice costs which we will get into later. In addition, it has also become more complex to handle and control the billings from several different providers. In Österåker, where there are a total of seven providers, the process of auditing and communicating with the home care providers takes up more resources than in the other municipalities.

The municipalities are also subject to random controls by the Health and Social Care Inspectorate (IVO) and substantial auditing costs occur in several places when preparing for this. Regardless of LOV, municipalities have the responsibility to document their operations. In our interviews we learned that having multiple counterparts makes the process of evaluating the home care providers more resource demanding rather than, as in Lessebo, just checking whether one provider is fulfilling the requirements or not. In Österåker, the administrative staff has doubled over the last 10 years while the number of employees is lower in Lessebo than it was 10-15 years ago. The population has increased a lot more in Österåker than in Lessebo but not enough to justify these differences.

On the other side of the auditing costs are the actual home care providers. We interviewed an employee from a private provider in Österåker and she said that she spends increasingly more time logging everything that has been done at the customer and write reports about it. She says that this takes a lot of time from her actual work, i.e. helping elderly people, but that they are required to document. This is in line with what theory names as a tendency to “over-document” in the health care sector and we interpret this as a way to prepare and be safe for a potential audit. This is also in line with the trend described by Forssell & Ivarsson-Westerberg (2014). Employees become generalists to a larger extent and focus less on their core specialization as Adam Smith’s theory suggests. This is also applicable for the administrators that are supposed to be experts on

evaluating individual's needs but now they are also required to know how to write extensive reports, use various systems etc.

*Customers' free choice costs:* These are the administrative costs that arise when citizens are made into customers in a market-like systems within public services. A phenomenon that has become increasingly more common as a result of the so-called freedom reforms is the attempts to report and provide information about different activities those customers/citizens are able to choose from. That is one side of the customers' free choice costs - which occurs in organizations where information is gathered and databases are built up, but also in the organizations that can be chosen to market themselves (Forssell & Ivarsson-Westerberg 2014).

The situation with customer free choice costs was most evident in Österåker where there are seven home care providers. In addition to just a high number of service providers, the service providers in Österåker also differentiate themselves by offering different additional service and having different language skills (up to 10 different languages). In an effort to attract customers we have noticed that these providers spend a lot of resources on marketing themselves. The home care providers are also required to keep track of their personnel turnover and be able to provide this statistics as this has become an important decision criteria. As a response to the complex nature of choosing supplier, the municipality launched a new website in 2014 where the inhabitants can compare available service within various areas such as education and home care. Even though the service providers prepare their own marketing material it sometimes gets controlled by the municipality and for instance it has happened in Österåker that the municipality found out that the service provider could not offer all the languages they claimed. This is naturally also a cost that relates to the customers' free choice costs.

The other sides of the customers' free choice costs lies with those who are expected to make rational decisions on the basis of the information and comparisons (Forssell & Ivarsson-Westerberg 2014). It is important to keep in mind that many individuals in need of home care service are not in the best shape and might have a limited ability to make rational decisions. Naturally they are free to ask relatives, friends etc. for help, but this should also be considered as spending resources in a way. To complicate things further, the municipality is not allowed to give any recommendations and is only allowed to answer general questions. Once the customers have decided to use a certain provider, there is always the risk that especially the private ones will stop operating or not meet demands; this has for example happened in both Österåker and Hjo. In those cases, additional customer free choice costs occur as they need to redo the entire process of selecting a provider.

From our study we have found that all four types of transaction costs are evident in the three municipalities: internal organizational costs, control costs, audit costs, and customers' free choice costs. Considering home care service is a complex operation these transaction costs are also quite high, especially since high personnel turnover and changing customer choices of providers etc. are negatively affecting the chance of building long-lasting relationships. In Österåker they now need to handle seven service providers instead of one, which of course is more complex and resource consuming. The problem with the food distribution is a perfect example of where coordination has

been much harder to handle effectively and hence require more resources devoted to it. But as we see in Hjo even if you only have one private service provider the internal organizational costs goes up because of the extra need to explain laws and new ways of working etc. The added accuracy demanded in many measurements has resulted in increased control and auditing costs, both in developing new tools of control, such as a more accurate time template model, but also in performing the actual control and reporting the findings. Another drawback is that the auditing done in the form of logging activities and the time it takes to perform them produce some negative reactions among those who are subjected to it. The auditing produces a substantial amount of data that are of valuable use, but that also needs to be handled and processed. Together with tasks like accrediting and handling new service providers this tends to produce a large amount of documents, which Forssell & Ivarsson-Westerberg mean is a typical tendency of the health care sector, to document too much. The cost of customer's free choice is present in the fact that the municipalities need to gather and provide all necessary information about all available service providers to the customers. Although they get most of this information pre-packaged from each service provider they still need to check for its accuracy. Another issue is that the freedom for users to choose their own providers takes a turn for the worse with the fact that many users are not able to make a rational choice, because of old age, dementia, etc., and this is despite any massive information campaigns. These transactional costs can be seen as a consequence of the need to organize markets, in order for them to function in accordance to the wants and needs of those involved in them and those controlling them. This puts many of the typical attributes of organizations back into the realm of markets.

### 5.3 Organizations and Markets

According to Ahrne and Brunsson (2008) there are, contrary to what many believe, many commonalities between organizations and markets. In fact they claim that most markets are to a large extent organized and not that left alone to market forces as many tend to believe and maybe idealize. To see if this is the case in our studied municipalities we apply Ahrne and Brunsson's typical characteristics of organizations and see if these also apply to the newly created markets following the LOV implementation.

With the introduction of LOV there follows an accreditation process of determining if the service providers meet the criteria decided by the municipality, i.e. to determine if they can become members. A mentioned problem with this is the increased administration, but also the fact that private service providers claim they live up to all stated requirement even though that sometimes might not be true. A private service provider can also reject some membership requirements, as done in Hjo where food distribution was deemed unprofitable for the private companies and hence rejected. Another issue is that the members, in-house and external, are not always judged the same way, as in the case where the in-house provider performs more than LOV commitments but where these actions are not ordered and registered fairly. The municipalities themselves are also affected by membership rules, such as in the Elderly's Needs In Focus (ÄBIC) initiative where the National Board of Health and Welfare decides if they live up to their stated criteria. Right now it is optional to join this initiative, where Österåker and Hjo have joined but Lessebo has not, although most interview respondents believe ÄBIC will become mandatory in the future.

The accreditation of members of course brings a form of hierarchy to the market or organization, but the hierarchy extends well beyond that. The National Board of Health and Welfare, the Legal, Financial and Administrative Services Agency, and the Swedish Association of Local Authorities and Regions give directives for the municipalities to follow. In our study this is mostly recognized in the Social Services Act, which is the frame law that all administrators need to adhere to when deciding on which and what amount of assistance to offer their elderly. The political pressure from the government to implement LOV cannot be denied, although it is somewhat determined on what political parties are in control in the municipality. The personnel working in the municipality has to follow what has been politically decided, but they in turn forward demands on the service providers that they use in their operations. All this requires monitoring of the activities performed, which put strains on both the party doing the monitoring and the one being monitored.

All this requires rules, which in our study includes laws, directives, guidelines, standards, contracts etc. LOV and the Social Services Act are laws, but at least in the case of the Social Services Act it is open for subjective interpretations done by each administrator. This results in different guidelines to follow in each municipality, for instance what cleaning schedule to use. There are similar rules in all municipalities when it comes to converting customer need into time units, but also here there are many subjective interpretations done. This is tried to be remedied by even stricter standards and rules, such as more accurate time measures, introduction of Elderly's Needs In Focus (ÄBIC), and more considered reimbursement incentives. Of course this means more logging of activities and more meetings to decide on rules and to make sure they are followed. This increased activity of documentation started before LOV, but has since gained in magnitude. For these rules to be effective there is an added need for transparency and control.

The Health and Social Care Inspectorate (IVO) does occasional spot checks to ensure that administrators follow the directives stated in Social Services Act. The municipalities put a lot of effort in controlling that service providers do what they are supposed to and that they do it on time. This control can sometimes be perceived as being intrusive and many see that it takes up a lot of their time to adhere to increasing demands on things as logging of activities, creating documents and producing statistics. In the case of ÄBIC, the National Board of Health and Welfare collects data at the municipality level and it is the municipality's responsibility to prepare and handle this gathered data, which of course means an increased workload.

If service providers fail the control measures put on them there are sanctions in place, which means the whole process of accreditation has to be done all over again with a new provider and this also entails producing and reviewing all new information and marketing of this new actor. Although, when the power distribution is shifted in the private providers favor, there can be the effect that the municipality itself needs to take responsibility, such as in Hjo with the food distribution issue.

In short, we can see that all five typical characteristics of organizations are present in our studied cases. Many of these occurrences are in the area of the newly created service provider markets, which indicates that these markets do not yet function sufficiently smooth to be left completely alone. They need to be organized.

## 5.4 Summary of Analysis

There is clear support that the introduction of the Swedish System for Freedom Act (LOV) in the municipalities follow almost all typical characteristics of New Public Management initiatives presented by Forssell & Ivarsson-Westerberg (2014). The only characteristic missing is the emphasis on direct leadership. Another important fact is that the effects on efficiency are ambiguous. This is acknowledged in that they find it hard to do good measurements because of lack of definitions, and to know what to actually measure. The actual measurements being done despite this fact show varying results and they have a hard time living up to the expectations of stated financial goals. More easily discernable are the emerging transaction costs following the implementation of LOV. Even if Lessebo decided to not implement LOV their organization was still influenced by it, although not nearly to the extent as Österåker who has the greatest number of private service providers. Below is a table where transaction costs are indicated in each municipality.

	<b>Österåker</b>	<b>Hjo</b>	<b>Lessebo</b>
<b>Internal Costs</b>	High	Moderate	Low
<b>Control Costs</b>	High	Moderate	Low
<b>Audit Costs</b>	High	Low	Low
<b>Free Choice Costs</b>	Moderate	Low	None

*Table 2. Transaction costs*

These costs need to be handled and the municipalities do this by diverse organizational efforts, which is an indication of the existence of what Ahrne and Brunsson (2008) defined as commonalities between organizations and markets. This means the created markets are simply not sufficiently autonomous to survive on their own and need extensive organizing to function as desired.

## 6. CONCLUSION & DISCUSSION

We viewed the area of studying the effects of marketization with its impact on inter-organizational efficiency and administrative demands as a relatively unexplored area, especially within the public sector. Therefore we concluded that there was a research gap both in terms of incompleteness and inadequacy. In addition to this, the existing research in general show non-coherent results with some pointing towards improvements post a marketization process and others suggesting that it is counter-productive. To address this research gap we proposed our research questions:

*How does marketization affect inter-organizational efficiency?*

*What problems and costs might arise due to marketization and how do the municipalities handle them?*

Where our definition of efficiency was to uphold a certain quality to the lowest possible “cost”. Increasing efficiency would be to provide those who currently receive home care aid with the same quantity and quality of service as before, but doing this with lower costs to the organization. Where those costs could be measured in money, time, or effort spent. More specifically in our study these questions were addressing the implementation (or not) of LOV in certain municipalities and the home care sector. The reason being that introducing LOV meant creating external markets, where private actors were invited to participate. We thought these external markets would put more strains on the administration than internal ones, and hence worthy of studying.

We will answer our research questions simultaneously as it was evident when we conducted our analysis that they are very much related. When we studied the consequences of marketization we saw some problems surfacing and that the municipalities’ handling of those problems had a negative impact on efficiency.

### 6.1 Conclusion

Initially we saw some typical organizational changes that are typical for marketization initiatives. In our case, the municipalities mixed public and private, created internal markets, increased focus on legal requirement through enhanced standards of tender documents, increased control and finally increased the distance between contractors and providers to make decision making less subjective. As a result of LOV or the evaluation of it, we saw that all municipalities have spent a lot of resource on constructing more accurate templates for converting customers’ needs into granted time. Regardless of this improved focus on improvement, it was evident that the average number of granted hours had remained the same and therefore not increased efficiency as some proponents of a marketization process argues. Furthermore we found that several transaction costs (internal organizational costs, control costs, audit costs and customer free choice costs) occurred in the municipalities that implemented LOV, and this is in accordance with Forssell & Ivarsson-Westerberg’s (2014) theory. These costs stem from the municipality’s attempt to solve and coordinate the problems that are associated with marketization. For example, we saw that the municipalities handled problems such as having several counterparts with increased control, problems with customers not knowing the providers with increased efforts targeted towards making information and comparisons available. The last mentioned cost (customer choice cost) is



addressing the fact that many of the customers have a hard time making a rational choice, since they find it difficult to assess quality and feel anxious in making the wrong decision, due to old age, dementia etc. This is what, for example, Barnes and Prior (1995) and Glendinning (2008) also found in their research. Marketization was an attempt to avoid bureaucracy, but solving market problems and coordinating market participants led back to increased administration, and when the transactional costs could not be sufficiently limited it broke one of the, by Le Grand (1991), stated prerequisites of a functioning quasi-market.

It is important to mention that we found positive consequences of LOV, such as increased transparency, more equitable distribution of resources, and the fact that customers value the opportunity to have a choice and so on. However it is clear from our study that LOV has also implied a lot of extra administration which has been a burden for municipalities that have implemented the reform. Another evident fact was that Ahrne and Brunsson's (2008) theory about the interrelatedness between organizations and markets was applicable. With the implementation of LOV, we saw that an accreditation process of new providers was installed; a hierarchy was formed with the National Board of Health and Welfare, the Legal, Financial and Administrative Services Agency etc. giving directives and standards. There was also an element of auditing, through the Health and Social Care Inspectorate (IVO) with the possibility of sanctions if the service providers failed to deliver on what they had promised.

To conclude, it was evident that marketization induced several problems that had a negative impact on efficiency. Regardless of LOV, the investigated municipalities grant the same amount of hours as they did prior to the reform with the only difference being that the municipalities with LOV have incurred several "side costs". These costs include the extra administrative burden from solving and coordinating problems, such as handling, controlling and auditing several counterparts, helping inhabitants making rational decisions etc. Given that granted hours remain on a stable level, we concluded that efficiency in the municipalities with LOV has decreased considering all these side costs. We also saw that, as theory suggests, that markets need to be organized and in the municipalities' attempts to do so they created additional bureaucracy which they were trying to diminish through the marketization process in the first place. One possible solution to this was to conduct an investigation, as was done in Lessebo, and then try to learn from this without actually implementing the marketization initiative.

## 6.2 Discussion

In the spirit of New Public Management the introduction of LOV in the home care sector is intended to instate freedom of choice and increase efficiency through marketization. We have shown that there are many problems associated with the municipalities' efforts to handle these markets, such as selecting and controlling members, defining standards, deciding on sanctions, helping individuals choosing their preferred supplier etc. To correct these problems government agencies and municipalities increase control, set new guidelines and perform various measurements. As a result, transparency and equitable distribution of resources increase, but many studies and surveys point to the fact that administrative work increases and takes up increasingly more of the working hours of employees, particularly in the public sector. This is not in line with Adam Smith theory about specialization increasing efficiency, as with an increasing

administrative burden employees become generalists instead of specialists. Furthermore, from our interviews and secondary data we know that this trend of increasingly administrative work has increased dissatisfaction and level of stress among employees (Forssell & Ivarsson-Westerberg 2014).

The introduction of LOV has increased complexity and put higher demands on accurate measurements and follow-ups, as well as put forth the need to draft standards and have contracts written with service providers. The benefits are the possibility for the customer to choose provider, the ability to offer more services, the perception of less subjectivity and decisions more in line with the rule of law. Some also believe that marketization has meant that municipalities have had to address things previously ignored, resulting in more equitable decisions. But all this has made increased control necessary, which increases the administrative burden. Not only in the direct auditing, such as logging of activities, but also in the mounting need to produce things like plans, documents, and statistics. The intentions to raise cost consciousness and increase productivity have had mixed results. The amount of granted time is largely dependent on external factors and any positive results on efficiency are somewhat depending on how you measure, and can even then be seen as ambiguous. The ambiguity is connected to the fact that no real aggregated measure of efficiency is used in any of the municipalities, which is also true in the lack of definition for properties like “quality”. Given that it is hard to define certain aspects of the operations of course makes it even harder to measure them. In comparison it is easier to see the effects on administration and the associated transaction costs. Using Forssell & Ivarsson-Westerberg’s (2014) framework we found that all of their four transaction costs are present in our case (internal organizational costs, control costs, audit costs, and customers’ free choice costs).

So in what ways are these newly instituted markets structures different from the organizational structures that were present before? Many respondents do not believe they differ that much, but that the change is more in the way people think, i.e. increased cost consciousness and focus on measurements. We believe that one reason there is not that much change is that the market created is also highly regulated. In an attempt to make the markets well-functioning, there are a lot of administrative demands which increase bureaucracy and hence resembles organization as an organizing form. The market participants are through the accreditation process in effect becoming members, and membership is usually seen as a sign of organizing. In a way the companies are volunteering to be exposed to a form of hierarchy with government agencies at the top. By doing this they also agree to adhere to the rules of the game, which means they will be subjected to control measures, auditing and eventual sanctions. All this regulation from government agencies and municipalities is an attempt to steer and influence the market, but it also increases the demands on themselves, such as requiring extra resources and more administrative work. The consequence of the increased bureaucratization is that it works in the opposite direction of the intended effects of the initial marketization. We saw that the effort goes from trying to adapt the organization to the market, to trying to organize the market.

There are several researchers who have pointed to the increased bureaucratization that followed the NPM-orientation. We agree with the paradox described by Forssell & Ivarsson-Westerberg, namely that new management practices and controls introduced and implemented in order to decentralize and streamline the organizations also created administrative procedures that seem

centralizing and that cost resources in terms of administration (Forssell & Ivarsson-Westerberg 2014). This is also in line with Gregory (2007) who means that this can be seen as the unforeseen consequences of the NPM reforms. He means that countries that are entering a "post-NPM" phase tends to reinvent the Weberian bureaucracy, which could be what we see, in our case of municipal home care, in a couple of years. In Sweden this process has been evident in the school system, where falling results have raised voices arguing to re-nationalize the school system. Seeing that NPM reforms have been implemented for a considerable time now their consequences can hardly be called unforeseen anymore, but rather accepted effects of the repeated swing of the pendulum from organization to marketization and back again, perhaps *ad infinitum*.

### 6.2.1 Theoretical and Practical Implications

As we mentioned in our introduction the welfare system is a sensitive topic for a lot of stakeholders as profit making and taking care of the elderly is not compatible to a lot of people. Private actors have been criticized and people have very strong and differing opinions concerning whether marketization is a good idea or not for this sector. In addition to the strong opinions, public procurement is also economically important as public organizations in Sweden spend approximately 550-600 billion SEK per year on procurement of services and goods. It is therefore of high societal importance to have a well-functioning home care system and we hope that our thesis shed some light on issues in this sector. Without a doubt, there are positive effects of a marketization process, such as increased awareness, more equitable distribution of resources, increased transparency and so on. However, the increased organizing that comes with the marketization has been painful and draining resources for those municipalities that implemented LOV. Our main practical implication is that municipalities can receive most of the benefits without actual getting the costs associated with the marketization process. We saw this in Lessebo, the evaluation of an implementation of LOV raised awareness, increased transparency etc. but they did not receive the associated costs as they ultimately decided not to implement the LOV reform.

We believe that using a transaction cost framework, originally developed by Coase (1937) and Williamson (1985) was very suitable for our study. Some of the original theories were applicable, such as Williamsons view that transaction costs decrease with long-lasting relationships. In our case, we saw that the short term relations that the marketization induced implied increased transaction costs as municipalities need to know how they are dealing with and it becomes time and resource consuming for customers to choose provider. However, the version developed by Forssell & Ivarsson-Westerberg (2014) was well adapted for our study. Their transaction cost framework, consisting of four costs (internal organizational costs, control costs, audit costs and customer free choice costs) was comprehensive and useful for structuring purposes. We believe that their framework is suitable for a range of studies investigating the effects of marketization.

In our literature review we saw that the effects of marketization are ambiguous. Some studies points towards positive effects of marketization and privatization, for example Ehrlich, Gallais-Hamonno, Liu & Lutter (1994) who means that state ownership can lower organizations' long-run productivity and the rate of their cost decline, implying that a market is beneficial. Regarding the effects in public organizations, we referred to Jackson (1995) who claims that the effects are especially hard to measure in public service organizations and Slagsvold (1995) who suggests that measurements in the elderly care sector do not measure what they are intended to measure. This

is something that was very evident in our investigation as well, mainly due to the fact that the organizations themselves do not know exactly how or what to measure, perhaps because they have until recently not been forced to do so. This stresses the need to start explicitly defining things and activities that are relevant to measure and to have a joint discussion of what these might entail. We also pointed to research done by Downs (1967), claiming that marketization reforms are counter-productive and add bureaucracy. We learned in our interviews that the municipalities still grant the same amount of time for a stable price. Therefore, it is not possible to say that marketization has increased efficiency. Instead, the municipalities that implemented LOV had incurred several “side costs” in an attempt to solve the problems associated with marketization and therefore experienced a reduction in overall efficiency as they now need more resources to deliver the same result. With our study we have contributed to the confusing discussion about efficiency consequences of a marketization process, especially in public organizations. In our study we found some support for Downs’s (1967) view that marketization reforms are counter-productive.

### 6.2.2 Limitations and Further Research

Naturally, there are limitations to our study. We have a small sample which could potentially be a problem if we were to generalize our findings. Another issue is the fact that this industry in Sweden might have fundamentally different preconditions than other industries in other countries etc. and therefore it might not be possible to generalize. To address some of these limitations we propose areas of interest for further research. Our main interest for future research would be to examine how our results would hold in other samples. For example, it would be interesting to assess the marketization of home care in some of the other 290 municipalities in Sweden. However, it would also be interesting to investigate how our results holds in other geographies where a lot of variables can differ, i.e. culture, population structure, income levels, political leadership etc. Furthermore, we would encourage future researchers to apply our theoretical framework to other industries, especially within the public sector as efficiency is often difficult to measure in such operations. Our research question is quite general and we hope that our results are applicable to other industries and geographies but this would as mentioned be interesting to investigate further. The transaction cost framework by Forssell & Ivarsson-Westerberg, is comprehensive and should be applicable in other settings when marketization is taking place but it would be fascinating to investigate if there are any other problems surfacing in a marketization process. Finally, we have assessed municipalities that quite recently implemented a marketization process and therefore we have found problems that have occurred in the initial phases. Is it the case that there is a pattern of high costs in the early phases of new reforms and initiatives? We would therefore like to encourage others to investigate these municipalities in five to ten years to find out how they have developed and a further step would be to compare with how other reforms/initiatives evolved over time.

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## 8. APPENDIX

### 8.1 Structure and Questions for First Interviews

#### **Evaluating and Implementing LOV**

Describe the process of granting services and hours.

Describe current guidelines, directives etc. and how you work with them.

What services do you grant and how do you categorize them?

What is your opinion of LOV, what are the main effects, benefits and problems?

Do you have any special local guidelines to take into consideration?

Are there any local conditions that make the transition to LOV difficult?

How has the increased marketization focus affected decision making?

How has LOV affected performance, control and auditing of services?

Has the organization changed as a result of LOV?

#### **Effects and Discrepancies**

How do you apply the guidelines when granting services and how does this translate into a specified amount of hours?

How has the amount performed time evolved since the implementation of LOV?

Has control increased or decreased and in what way?

Is it reasonable that incentive structures affect how the service providers operate?

Describe differences in performed time, in-house provider vs private provider.

#### **Control and Administration**

How does the feedback process work?

From whose perspective, patient, provider, purchaser?

Is it problematic to connect follow-ups to financial incentives?

## 8.2 Structure and Questions for Second Interviews

### **Efficiency & Problem Solving**

Please elaborate on the municipality's reasoning when evaluation LOV.

What has changed, for instance, transparency, overview, control, or other?

In what way has the marketization affected efficiency?

How do you measure efficiency?

If there have been no major changes in granted time, what have been the benefits?

What problems have arisen and how have you handled them?

Do you have any specific local solutions?

Do you consider the "free market" to be well-functioning or are you intervening much?

Do you think your "market" is large enough to attract private providers and if not what can be done?

### **Interpretation & Standardization**

Following market adjustments and enhanced demands on measuring time, resource allocation etc., are you standardizing more than before?

In what way are you monitored and what are the possible sanctions?

How do you control, audit and certify market participants?

Have subjectivity become a bigger problem?

### **Administration & Other Issues**

Has the administrative burden been affected?

Has it moved within the organization?

How do you find and protect yourself from low quality providers?

Has the distance between the service providers and administrators change and how does this affect administration?

Are employees resistant to being controlled and monitored and if so how do you handle it?

How are inhabitants valuing their freedom of choice?

How do you ensure that the inhabitants are receiving accurate information to make rational choices?

Other costs or benefits that have arisen as a result of the marketization process?