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### **Running title:**

Inter-organizational cooperation challenging hierarchical accountability<sup>1</sup>

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**Inter-organizational cooperation challenging hierarchical accountability:  
The dominated actors in a municipal joint venture**

**Abstract**

New Public Management offers a number of solutions to the kind of problems that public sector organizations experience. In taking an accountability perspective, this article elaborates on how two of these, strict responsibility for performance and inter-organizational cooperation, may conflict. The setting for this study is a joint venture with a dominant municipality and six dominated municipalities. The article examines how horizontal accountability processes may influence the dominated owners' vertical accountability. The ability to account hierarchically for the quality of service within budgetary parameters is problematized, where dominated owners may undermine their own ability to demand horizontal accountability.

**Key words**

Accountability, inter-organizational relations, joint ventures, dominated actors, New Public Management

# **Inter-organizational cooperation challenging hierarchical accountability: The dominated actors in a municipal joint venture**

## **Introduction**

The search for greater modernization and efficiency in the public sector motivate the theory and policies of New Public Management [NPM]. A major feature of NPM is the “copying” of private sector organizational solutions for use with public sector organizational problems (Hood, 1995). Thus, private sector management solutions, when transferred to the public sector via NPM, seek to advance efficiency and quality of output in the public sector. A key feature of NPM is decentralization accompanied by vertical accountability for performance. Decentralization in the NPM era also sends a powerful message about strict responsibility for measurable outcomes (Hood, 1995). “All aspects of results and their antecedents in public organizations are under intense public scrutiny” (Lapsley, 2008).

In recent years, the use of different forms for inter-organizational cooperation has been incorporated into NPM (Broadbent & Laughling, 2003; Cäker & Siverbo, 2011; Ryan & Walsh, 2004). Baretta and Busco (2011, 213) claim: “The development of new cooperation agreements and innovative forms of organizing within the public sector have been portrayed as possible ways of increasing performance through more efficient use of resources, greater competitiveness, and improved customer service.” (see also Hodges, 2012). Small municipalities in particular are encouraged to cooperate with each other, with larger municipalities, and with other external actors as they confront organizational challenges. Many municipal services require substantial investments in facilities and knowledge and inter-organizational cooperation in joint ventures [JV] by municipalities is seen as a way to share the burden of such investments (Cäker and Siverbo, 2011).

Inter-organizational cooperation is related to intra-organizational control. For example, Ryan & Walsh (2004) claim vertical accountability structures, such as found in intra-organizational arrangements, obstruct cooperation. This claim is consistent with the conclusions in private sector research on how vertical control accountability influences inter-organizational cooperation (Chenhall, 2008; Cäker, 2007; Håkansson & Lind, 2004). However, research on how inter-

organizational cooperation influences the internal control systems in the public sector is scarce (Lacey *et al.*, 2012; Shaoul *et al.*, 2012).

From the private sector, for example Mouritsen *et al.* (2001) show how cooperation can reshape internal processes and Cäker (2007) shows how close customer relations create pressure for changing accountabilities in the organization. Lacey *et al.* (2012) studied situations where tasks in the public sector depends on the interaction between organizations and investigated how performance measurements are affected. They argue that cooperation may even limit a public sector organization's ability to claim performance. Shaoul *et al.* (2012:218) claim that cooperative arrangements "... present problems for public sector accountability because the public sector remains responsible for services it does not deliver". Wilkins (2002) claims that different units have long shared the responsibility for many public sector tasks, but appropriate accountability structures have not developed.

However, vertical accountability is deeply rooted in contemporary public organizations. To further our understanding of the potential clash between two streams of the NPM message, strict responsibility for performance and inter-organizational cooperation, in this article we examine how inter-organizational processes in the public sector can compromise the ability to account for performance. Our aim is to deepen our understanding of why and how this problem occurs so that ameliorative actions may be taken in the future.

We address this research question in the setting of a municipal-owned Nordic JV that provides fire and rescue services to a group of seven municipalities. In our study, we take the perspective of the smaller municipalities in the JV. Previous research has shown that such smaller (and dominated) actors may have limited influence on the control systems found in inter-organizational cooperation (Cäker, 2008; Cäker & Siverbo, 2011; Donada & Nogatchewsky, 2006). In such JVs, given the dominant actors' control of governance issues, it is reasonable to assume that the dominated actors may sometimes clash with these control systems. In a study of public sector JVs, Cäker and Siverbo (2011) reveal mainly positive effects on control routines in joint ventures that have a dominant actor. However, this outcome was the result of the dominant actor's alignment of these routines with other internal control systems. We suggest, that JVs may

also create governance problems for dominated actors when they are forced to adapt to control by dominant actors.

## **Frame of reference**

### **Accountability in the public sector**

Accountability is the giving and demanding of reasons for conduct and puts focus on the willingness and ability to account. The traditional context in accountability studies is the analysis of the principal-agent relationship inside organizational structures – vertical accountability. With greater reliance on inter-organizational cooperation for delivering services by public sector organizations, there has been more analysis of accountability between individuals and organizations outside organizational structures – horizontal accountability (see Hodges, 2012; Michaels & Meijer, 2008).

Vertical accountability is found in the formal power relationships between principals and agents (owners - top management, manager – subordinate employees) in which accounts of performance are required. Horizontal accountability is a characteristic of more informal power relationships in which accounts of performance may be expected owing to contractual arrangements or to social and historical contexts. Thus, we may observe horizontal accountability in many different situations, including the power relationships between actors. To complement the extensive research on vertical accountability in the public sector (Wilkins, 2002), research on horizontal accountability is needed in the increasingly complex organizational structures and processes of public sector JVs. As Hodges (2012) asserts, to understand how contemporary public sector organizations account for their performance, research on both vertical and horizontal accountabilities is necessary.

### **Joint ventures for public sector services**

The JV is a legal entity established to promote an inter-organizational relationship among various separate organizations that join together to achieve some mutual goal. As a JV owner, an organization can secure long-term and ready access to various tangible or intangible resources from other JV owners. This may mean less risk, greater cost efficiency, and improved

development opportunities. However, the separate owners in the JV often have particular, sometimes conflicting, strategic and/or financial expectations (Büchel, 2003).

As in classic buyer-seller transactions, inter-organizational relationships in general allow the buyer-actor to access knowledge and other resources by procurement rather than production (Groot & Merchant, 2000). Compared to open-market transactions, inter-organizational cooperation facilitates long-term planning and exchanges between organizations (Håkansson & Lind, 2004). The inter-organizational JV increases these advantages by its formal and legal organizational structure.

Yet the JV poses particular challenges related to the JV owners' autonomy and their ability to exert influence. From an accountability perspective, the JV managers are expected to account vertically to all JV owners. However, this accountability is limited to the requirements in the formal JV agreement and to situations in which the JV owners must agree on new requirements on, or as a group accept explanations from, a JV. If only one JV owner is interested in making a demand(s), two options are available to resolve the situation. That JV owner may try to coordinate its demand(s) with the other JV owners or it may try to influence the JV directly. In this event, horizontal accountability is required either among all owners or between the single owner and the JV. Although a single JV owner, to some extent, is a principal in a JV, the accountability relationship is horizontal because the JV agreement limits a single owner in its separate demand(s) for accountability. The JV structure thus creates a potential problem as far as accounting for the performance of JV activities.

### **Challenges to vertical accountability from cooperation**

Traditionally, accountability in the public sector has focused on reporting expenditures and complying with legal requirements (Wilkins, 2002). Core features in NPM are the increased reliance on decentralization and the inclusion of outcome variables in the accountability reporting (Hood, 1995). In a tax-financed, public sector organization, adoption of NPM means that managers are accountable primarily for the organization's delivery of services and for budgetary discipline. While the mission of public sector organizations is to produce public value (Spano,

2009), cost budgets create limitations, particularly when legislation imposes public sector budgets for various activities. Public sector managers therefore have to fulfil their organization's mission under sometimes-severe budgetary constraints.

For municipalities to achieve their organizational mission within budget by using a JV means the gain in access to resources may be at the expense of the loss of JV owners' autonomy (Pfeffer & Nowak, 1976). Outsourcing of activities to an external actor – for example, a JV– does not relieve a municipality from its obligations and may even increase the complexity of its activities. The municipality has to control the external actor such that its mission to provide quality services remains foremost.

Regarding quality of services the literature on inter-organizational relationships highlights the potential advantage in the sharing and pooling of knowledge (Hardy *et al.*, 2003). The research on collaboration suggests that such collaboration promotes the transfer of existing knowledge and the creation of new capabilities. Hardy *et al.* suggest that knowledge transfer is often the central strategic effect of collaboration that allows organizations to manage tasks they could not handle on their own.

However, Hardy *et al.* (2003) conclude that effective knowledge transfer requires a high level of involvement by the cooperating organizations in an inter-organizational activity. This would problematize to engage in JV without devoting internal resources to the same, if an intended outcome concerns a high quality of service. This is further enforced by considering the results of Cäker (2008) who finds active involvement at operational levels in the exchange between buyers and sellers promotes the social coordination necessary to compensate for shortcomings in the bureaucratic control required for regulating such exchanges. Both Hardy *et al.* and Cäker emphasize the importance of using “in-house” resources to create such value and to enable efficient exchange in cooperative arrangements.

Municipalities' outsourced services are generally financed by service fees or by tax revenues. In either case, a municipality's task is to control the fees and revenues received. However, an additional complexity arises with the use of tax revenues because allocation of such revenue to

one area means less revenue for another. The loss of individual JV owner autonomy that Pfeffer & Novak (1976) discuss is relevant in this respect. If JV membership results in a loss of autonomy as far as control of how tax revenues are spent, a potential problem arises with vertical accountability.

### **The research method**

In this article, we explore how inter-organizational processes in the public sector can compromise the ability to account for performance for dominated (and typically smaller) municipal owners in a JV. For this exploration, we needed information on both the vertical and the horizontal control systems in the studied JV relationship. To examine how these systems function, we had to expand our descriptive accounts to the study of how key decision makers understand control systems. For this purpose, we chose the case study as the most suitable research method for examining such a system in practice (Yin, 2003).

Our research is based primarily on information derived from 14 in-depth interviews with informants in a municipal JV dominated by a major owner. This JV provides complex and essential fire and rescue services. The six dominated owners require transparency from the JV about the delivery and cost of such services. Our empirical data was collected in semi-structured interviews with key decision makers among the JV dominated owners. The owners took part in the collaboration on various dates in 2007 and in 2012. A detailed listing of holdings is given in Table 2. To ensure a representative view of the dominated owners we have chosen our respondents from two of the original owners (B and C) and two of those joining in from 2012 (D and E). Since the interviews took place in February 2013, the latter two municipalities had relatively limited experience from the collaboration (only 1 year). Thus, our analysis is mainly based on the experiences of municipality B and C.

We interviewed CEOs, CFOs and one mayor in the dominated municipalities. In addition, we interviewed the JV's CEO, a manager and a controller as well as a member of the JV Supervisory Board. To achieve greater balance, we also interviewed the CFO, advisors to the CEO, and the Division Manager for controlling ownership interests in Municipality A, the dominant JV owner.

| <b>Organization</b>                                     | <b>Respondent</b>  | <b>Respondent code</b>   |
|---|--|--------------------------|
| Municipality A<br>(Dominating owner)                    | CFO<br>Former advisor to the CEO<br>Advisor to the CEO<br>Division manager for controlling ownership interests | A1<br>A2<br>A3<br>A4     |
| Municipality B<br>(Dominated,<br>joined the JV in 2007) | CFO<br>CEO<br>Mayor  | B1<br>B2<br>B3           |
| Municipality C<br>(Dominated,<br>joined the JV in 2007) | CEO  | C1                       |
| Municipality D<br>(Dominated,<br>joined the JV in 2012) | CFO  | D1                       |
| Municipality E<br>(Dominated,<br>joined the JV in 2012) | Division Manager   | E1                       |
| JV company  | CEO<br>Division manager<br>Controller<br>Member of the board   | JV1<br>JV2<br>JV3<br>JV4 |

*Table 1 Interview statistics*

We taped, transcribed and summarized the interviews. We sent the summaries to the informants for their comments and corrections. The quotes used in this paper are translated from Norwegian to English by the authors. The interviews varied in length: from 33 minutes to 115 minutes. In addition, we examined relevant documents such as the JV Agreement, the JV Annual Reports and an Audit Report. The Audit Report evaluated the cooperation between the JV and one dominated owner. These documents provided relevant contextual knowledge about the JV and its relationships.

Key informants provided most of the information for this study. While this selection of responses may have introduced bias to the study, the use of key informants is supported by the qualitative research literature (Rubin & Rubin, 1995). While this research method is appropriate for answering our research question, we recognize our findings are limited as far as generalization to other JV relationships. External validity in such key informant restricted case studies is lacking.

## Case description and analysis

### The Joint Venture setting

Three municipalities (A, B and C) formed the JV in 2007 to supply fire and rescue services to their residents. In July 2012, four municipalities (D, E, F and G) joined the JV. The seven municipalities, which are of very different sizes, have JV ownership shares based on their original fire and rescue service [FRS] budgets.

| Municipality | Share in the JV (2012) | FRS cost / total municipality budget (2012) |
|--------------|------------------------|---|
| A            | 78,2 %                 | 0,9 %                                       |
| B            | 3,0 %                  | 1,0 %                                       |
| C            | 6,5 %                  | 1,2 %                                       |
| D            | 4,7 %                  | 1,5 %                                       |
| E            | 4,2 %                  | 1,3 %                                       |
| F            | 1,9 %                  | 1,2 %                                       |
| G            | 1,5 %                  | 1,1 %                                       |

*Table 2 The Municipalities, their JV ownership share, and their percentage of the budget for fire and rescue services (sources: the JV Agreements and National Statistics (KOSTRA)(<http://www.ssb.no/en/offentlig-sektor/kostra>))*

The municipalities finance the JV based on their ownership percentage. For the six smaller municipalities, these contributions vary between 1 and 1,5 per cent of their municipal budgets. For Municipality A, the contribution is 0,9 per cent of its municipal budget. The JV has 330 employees and 12 fire stations. Four stations, all of which are in Municipality A, provide 24-hour emergency services.

The JV has two major governing bodies. The JV Supervisory Board, which is the higher body, consists of the seven municipal mayors and six additional delegates from Municipal A. The Mayor of A serves as chairman. The JV Supervisory Board elects the lower body, the Board of

Directors: seven members in addition to three staff representatives from the JV. Municipal A appoints at least three members to the Board of Directors, including its Chairman. The JV Supervisory Board has two regular meetings per year at which the main task is to approve the budget presented to the Board of Directors.

Each municipality is legally responsible for providing adequate fire and rescue services to its inhabitants. Even if the JV orders the services, the responsibility still remains with the municipalities. The JV Agreement delegates authority and responsibility between the municipalities and the JV. According to this agreement, each municipality creates an annual risk and vulnerability analysis [RVA]. Based on the RVAs, the JV designs fire and rescue plans for the municipalities that describe the relevant activities for the following year.

### **The Joint Venture objectives**

When the JV was founded, its main objective was to improve the quality of service in terms of emergency responses and fire-prevention efforts. New, national fire regulations made it especially difficult for the smaller municipalities to handle this task by themselves.

*The new fire regulations place such high demands on the fire service. It is difficult to manage them in a small municipality . . . It's much more effective to work with municipalities that already have everything up and running. [Informant B1]*

According to one informant in a dominated municipality, the JV objective should be fairly simple: to provide services that keep the inhabitants safe.

*We have a fire service that, in a way, is "state of the art". It works as a modern fire service is supposed to work as opposed to the "here is what we can afford" type of fire service. [Informant B1]*

All the informants agree that the improvement in services is the greatest benefit of the JV. All actors seem to agree on this point. They note various evidence of this improvement: access to better equipment, to more expertise, and to managerial professionalism.

*Just look at the machinery in the JV compared to what we had ourselves. It's like night and day. Consider the expertise within the JV as opposed to what we had – cooks and bakers vs. plumbers, right? Clearly, it cannot be compared. It is like two different worlds.*  
[Informant B1]

Another informant puts it like this:

*The main benefit is higher quality; a professional staff and more experienced management. More quality in training and education, thus easier recruitment of qualified personnel. That's the main thing. It is also an advantage that we have organized activities into a separate company - so we do not have to argue about a new fire engine now and then, as otherwise when we have to choose between fire engines or a new nursery. Discussions like this we avoid when we have our own company. But the costs will be higher* [Informant C1]

However, some municipalities had greater expectations as far as cost reductions in the fire and rescue services.

*One [expectation] was to operate more efficiently, thus saving money. And the second [expectation] was to raise the competence, the quality of services.* [Informant B2]

Because each municipality is required to cover a fixed percentage of the total costs, there is no linkage between costs and activities. Municipality G must cover 1,5 per cent of the costs associated with a particular activity in their own municipality. Municipality A must cover 78,2 per cent of these costs. However, Municipality G also must cover 1,5 per cent of the costs of all activities in the other municipalities. Thus, each of the smaller municipalities has little influence as far as the allocation of the JV costs. In addition, the JV controls the quality of services provided.

Different interests by the municipalities pose other challenges to the JV. This can be summarized as the dominated municipalities fear that the dominant owner and the CEO of the JV have higher

ambitions than the small holders. Two issues for the JV are of particular interest. First, because of the development of new technology in the last two years, the JV built new fire stations in Municipality A. According to the Annual Report for 2012, these stations will result in significant increases in operating expenses (Annual Report of the JV, 2012; the JV Board Chairman).

*Show me a city in Norway that has a similar modern fire department to what we will eventually have. It does not exist. And that has probably something to do with the manager here; he has some ambitions that are slightly higher than those of the JV.*

[Informant B1]

Second, there is considerable discussion about whether new municipalities should be added to the JV. Benefits from economies of scale are offered as reasons for adding municipalities. In 2012, the four municipalities were added to the JV, and other municipalities are candidates for inclusion in the JV. However, there is no clear consensus that an increase in the number of municipalities is a desirable plan. Not all municipalities share the enlargement goal.

*If growth creates synergies that make it less expensive for the current owners, the growth most certainly is needed. But this may mean that the JV will be difficult to operate . . . This JV was established to promote efficiency, not to be huge. And it is actually already very large. Municipality A is a giant compared to the rest of us. So for me, it is not necessary that all municipalities in the district join the JV. This may not be very effective.*

[Informant B2]

To summarize the objectives of the JV, there is agreement that the municipalities in a JV can deliver fire and rescue services better than each municipality could on its own. This is especially true for the smaller municipalities. The JV size and the cost of the services, however, continue to generate much discussion. Next we describe the processes and structural aspects that problematizes for small owners to influence this and how it troubles their ability to account for their operations. Before doing this, we will display control process of the JV.

### **Vertical and horizontal accountability in the Joint Venture**

The JV Agreement and the yearly budget process control the JV activity. All the informants from the dominated municipalities were critical of this agreement because its lack of specificity.

Because this formal agreement cannot cover all conditions, informal influence by a municipality is possible. Municipality A, for example, owing to its special expertise and capacity, has a unique position in the JV.

*It really just means that Municipality A is better prepared for meetings than we are. They are in a position to be prepared, and we are not. You can say that Municipality A is in the driver's seat; they are large and they have the resources to investigate things. Thus, they have the ability to get things on the agenda that we cannot engage in. [Informant B1]*

On several occasions the JV Supervisory Board made decisions that the smaller municipalities disagreed with. Municipality A's mayor was behind such unilateral decision-making.

*Yes, it has happened, and it is mainly due to the presence of [Mayor of Municipality A]. She is powerful. [Informant D1]*

Another way for the municipalities to exert their influence is through direct contact with the JV. Municipality A uses this alternative more than the other municipalities. Four times a year the CEO of Municipality A and the JV managers have so-called "ownership meetings". Municipality A sets the agenda for these formal meetings.

*We have a meeting on the questions and issues they wish to discuss with us. Service delivery and other things that we need to talk about. We have only formalized this with Municipality A. [JV 1]*

According to the JV CEO, the smaller municipalities neither require nor have the resources for ownership meetings. He thinks it is a long-standing practice for Municipality A to hold such meetings owing to its extensive experience in corporate governance, including its close monitoring of the companies it owns. Moreover, Municipality A has an "ownership division" with corporate governance qualifications. He adds that the other municipalities, which lack such

resources and expertise, try to influence board members or the JV informally through communications. However, such communications are rare.

*I do not even know the CEOs in the municipalities. The CEOs are not my boss. If one of them wants to talk to me, he must, in principle, go through his Mayor, the Supervisory Board, and then down to me. It's a bloody long way. [JV 1]*

According to the JV Agreement, in May of each year the JV Supervisory Board proposes a budget for the JV. The JV CEO thinks that Municipality A has extensive influence over the yearly budget.

*So, if Municipality A decides that the JV gets this much money . . . OK, then most other municipalities join in and take their share of the pie according to their ownership fraction. [JV 1]*

According to the JV CEO, the budget process for the next calendar year begins in May of the preceding year because the JV Supervisory Board is administratively disconnected from the municipalities. While most municipalities prepare their individual budgets for the next calendar year in December, this one-month lead-time is insufficient for the JV. Furthermore, the JV budget process requires that a meeting of all the municipalities be held so they can offer their ideas. In reality, however, the JV Supervisory Board retains power over the budget, and the municipalities must accept its decisions.

There is a general understanding that Municipality A sometimes exploits its position of power.

*Power rules – to respond specifically to them. I somehow feel that Municipality A takes the other owners seriously . . . However, and you have probably heard this from the others as well, I have the feeling that Municipality A may have used its power in certain areas. It will hopefully get better. If not, I think that might open up someone exiting the collaboration. That may happen. [Informant E1]*

In summary, control of the JV stems from a vague JV Agreement and the dominance of Municipality A. This dominant municipality controls both the JV budget process and the JV governing bodies, particularly through its direct contact with the JV CEO.

## Accounts by the dominated municipalities

The six dominated municipalities, when they joined the JV, thought it was a reasonable decision because they could reduce their fire and rescue service capacity (with associated cost savings). For example, before joining the JV, Informant E1 was in charge of those services in his municipality. Today, while he is still the most knowledgeable employee in his municipality as far as fire and rescue services, that area is no longer his only responsibility. He is now in charge of buildings, roads and all other physical constructions in the municipality. He estimates he spends only one week per year on fire and rescue related issues. This change in his responsibility exemplifies how the JV has exerted its influence over the dominated municipalities.

However, even if the fire and rescue services are outsourced to the JV, the other six municipalities are still responsible for the quality of the services related to response time, required capacity, the number of preventive controls, etc. A key part of this responsibility is to develop the RVA. However, with less knowledge of fire and rescue services, and few resources devoted to them, the six smaller municipalities have difficulty in preparing their RVAs. In practice, they turn to the JV's experts for assistance. In this way, the JV reinforces its dominance over the activity.

*The RVA [for the municipality] was prepared with a great deal of support from the JV administration and the fire chief. From our side, the plan manager only contributed. He reports to me, so in that respect the municipal CEO participated indirectly. But the influence by the JV itself was significant. [Informant B2]*

The follow-up on the fire and rescue services provided is also problematic. When we conducted our study, there was no information system for general reporting to the municipalities.

*(We get) nothing, other than regular annual reports (from the JV) for information. We can do whatever we want with those, but we do not discuss them. Not systematically. [Informant C1]*

According to the JV Agreement the JV is required to report inadequacies in the services to the municipalities.

*The JV has the responsibility to report to us if it does not deliver what is legally required, that is, what is required for a fire department. Beyond that, we have no ability to test it. We have nothing and we have no parameters to measure quality. So, of course, it's difficult.* [Informant B1]

By outsourcing fire and rescue services to the JV, the municipalities no longer have detailed knowledge about fire and rescue services delivery or about the legal requirements for such services. The municipalities find themselves increasingly distanced from the JV's operations. This distance from the JV and their dependence on it are the greatest challenges for the smaller municipalities.

*Perhaps Municipality A has the competence. I do not know. But for our part, it is totally unacceptable to interfere, other than being a mailbox they can send information to.* [Informant B1]

The Audit Report emphasizes this problem in its commentary on the relationship between one small municipality and the JV. The report criticizes the municipality for not specifying any guidelines about its cooperation in the JV. In addition, the report criticizes the municipality because it has not developed any strategies or objectives related to the cooperative arrangement.

*The council has, neither in its final decision on joining the company nor in any other resolution on the matter, given any guidelines to [the JV].* [The Audit Report, p 35]

Nevertheless, in general, the municipalities trust that the JV has the necessary competence to make good decisions and to supply high quality services as needed.

*We perceive the JV as highly professional in many ways. Definitely. We have outsourced an important service to, let's say, a serious player. We expect it [the JV] to be in full control [of the quality].* [Informant E1]

Based in this trust, the municipalities think they can account for the legal requirements for fire and rescue services and the JV gives them the required formal documentation. However, the municipalities do not think they have the competence in-house to check the accuracy of the information. In addition to outsourcing the services, they have also outsourced the ability to account for these services.

Another problematic area for the smaller municipalities concerns the cost of the fire and rescue services. According to some informants, the JV Agreement does not deal adequately with costs and the objective of cost synergies. They see this as a reason for expansion of the activities.

*The starting point . . . was that costs would be the same . . . And then we expected better service than before because of the new organization. When the budget proposal from the JV came, we saw that assumption did not hold. We received an increase in expenditures of more than 23% . . . When we outsource a service to a company or to a JV, we run the risk that it will have its own life, outside the municipal framework. [Informant D1]*

This problem is partly attributed to the expansion ambitions of the JV CEO.

*He [the JV CEO] obviously has the ambition to build a modern and well-functioning fire department. And we have a dilemma because the money he wants to spend in the JV is also needed elsewhere in the municipalities. [Informant B2]*

This cost problem is most evident in the budget process. The municipalities begin discussions about their annual budgets in the autumn (after receipt of their annual grants from the State) and prepare their budgets in December. As noted above, the JV's budget process is finalized in May. This difference in timing is a challenge. The municipalities must reconcile the budgetary requirements from the JV Supervisory Board with their own budgets.

*This is the dilemma for the inter-municipal JV the way I see it; it is kind of "foul play". [Informant B2].*

The informants from the small municipalities agree that costs are increasing and are higher than were predicted when they joined the JV. Publicly available statistics confirm this increase in costs (see Figure 1). We used official statistics to compare costs for fire and rescue services in the municipalities with those costs at the national level. Although the national statistics reflect some costs that the JV does not have, these costs are relatively insignificant.

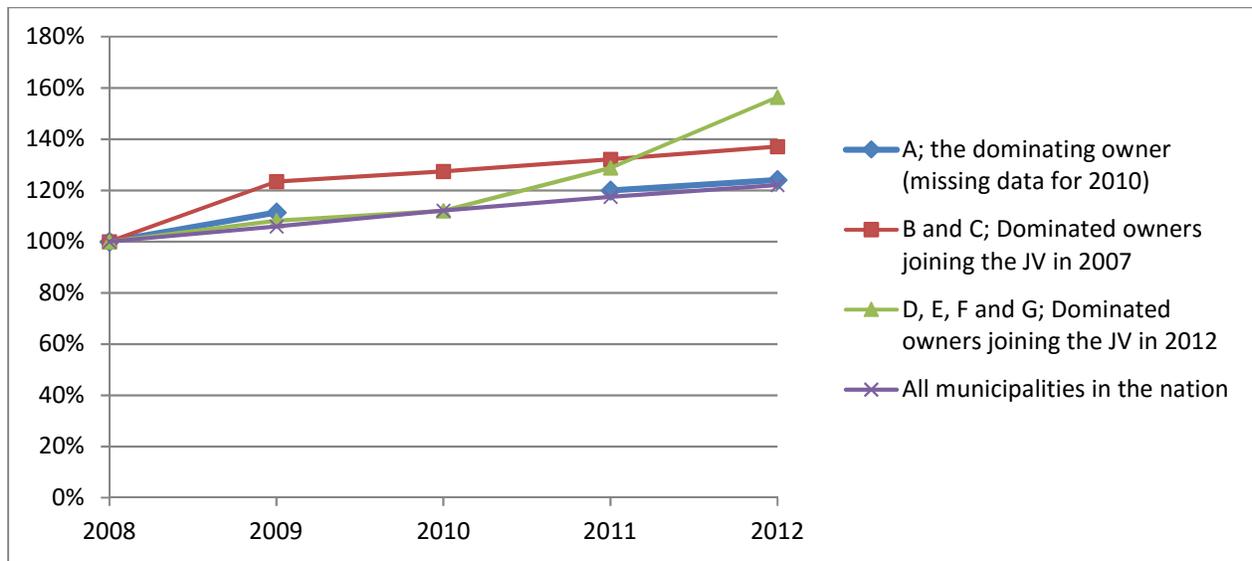


Figure 1 Costs of fire and rescue services. Relative development 2008 to 2012. (Source: National Statistics (KOSTRA) (<http://www.ssb.no/en/offentlig-sektor/kostra>))

Figure 1 shows that the trend in fire and rescue service costs for Municipality A is similar to the national trend whereas the dominated municipalities have seen a significantly greater increase in their costs. These municipalities are unable to say if the increase is the result of an improvement in the quality of service. In our discussion, we will outline the practical and theoretical implications of our findings and elaborate on how restricted knowledge of the exchanged services may impact on vertical accountability in the dominated municipality.

## Discussion

This article examines a case in which the joint owners of a new entity (the JV) have divergent interests and unequal influence. Institutional and legal requirements for the quality of the

particular services (fire and rescue) that the JV provides explain its creation when the minority owners (the smaller municipalities) are unable to provide the required level of service on their own. The study finds that, according to the informants interviewed, since the founding of the JV, the level of services has improved, both for emergencies and in the prevention and preparedness programmes. However, the dominant owner (Municipality A) in the JV has much more influence and much greater development ambitions than the dominated owners (the six smaller municipalities). In the following we address the effects of this unequal distribution of power on the six dominated owners by pointing to some structural difficulties for their vertical accountability processes.

Starting with the exchange of accounts between the JV and the dominated owners, this is suppressed in the case. This can be understood by looking at the initial expectations from the dominated owners. Their expectations were high regarding being relieved of fire- and rescue related issues. Thus, they decreased their attention by giving members in their organization involved in these services new tasks. Interestingly, this did not only regard the production of these services, but also the management and control of them. As the JV progressed, the knowledge related to the area is almost non-existing among the dominated owners. When our respondents compare their previous, internal cost for these services with what they now pay to the JV, they assume no remaining internal cost.

The dominated municipalities are nevertheless accountable for the quality of these services. It is the responsibility of the JV to help prepare risk and vulnerability analyses [RVAs] for the municipalities and to report on operational matters to them. In this way, the JV assists the municipalities with accounting vertically for their legal requirements to deliver superior quality services. However, a key observation from the case is that the dominated municipalities lack the knowledge and expertise that would allow them to evaluate these analyses because they have no active involvement in the JV operations (see Hardy *et al.*, 1993). This situation increases their sense that the JV dominates them.

A potentially severe risk because of the dominated municipalities' lack of fire and rescue knowledge and expertise is that they may be unable to satisfy local needs. Previous research has

shown that coordination on local levels in inter-organizational cooperation is often based on social coordination between well-informed actors (see Cäker, 2008). In addition to possible impairment of their emergency services, the lack of knowledge and expertise by the dominated owners may mean they understate the problems in their RVAs.

The case reveals still other problems for the dominated municipalities. They are unable to demand and control financial data from the JV and to influence its development agenda. The dominated municipalities lack the power and the self-confidence to challenge the authority of the JV Supervisory Board or of the dominant municipality.

Our case shows that the loss of autonomy (Pfeffer and Nowak, 1976) by JV actors in providing municipality services may result in cost issues for them (Spano, 2009). When a powerful JV management (and a dominant actor) has more development ambitions than other actors, an increase in costs may be anticipated. Lacking privileged information and influence, the dominated actors are at a disadvantage. They have neither the time nor the expertise to devote to such issues. The pressure on cost comes from the higher ambition with JV services from both JV management and the dominating owner. The dominating owner is seen as influential both through the formal influence and informational advantage due to their higher capacity to devote attention to the JV.

According to the JV Agreement, the dominated municipalities in this study must pay their percentage of the JV costs, regardless of whether they use the services provided. Proportionally, as a share of budget, this cost is greater than that of the dominant municipality. Official statistics shows a larger increase in costs for fire and rescue services in the small municipalities compared to those of the dominant owner. This may indicate that JV's expected economies of scale associated with the inter-organizational cooperation are mainly for the benefit of the dominant municipality.

The structural situation, with the lack of knowledge and power to stop the increasing cost, is problematic in itself. However, it is interesting how this is further amplified by the financial decision processes. Since the negotiation of JV finances for next year occurs before the budget

process in the different municipalities, this puts the dominated owners in a twofold problematic situation. First, in discussing the finances for the JV, they have limited knowledge about other demands on their internal budget for next year. This is of potential relevance regarding informal understanding from the other owners, especially the dominating owner, about financial difficulties that could be an argument for relieving a municipality from the financial burden of the JV. Second, since the financial requirements of the JV is decided before the rest of the budget for the municipality is negotiated, fire services might have a crowding out effect on other services as long as tax raises not is seen as an option. The loss of autonomy over the outsourced services thereby also has a potential effect on other services provided by the individual municipalities. Overall, this loss of autonomy (Pfeffer and Nowak, 1976) problematizes the vertical accounting of financial issues (Hood, 1995) to the taxpayers. The suppression of horizontal accountability in inter-organizational relationships thereby hampers the communication of vertical accountability.

Moreover, the dominated municipalities' lack of knowledge may create potential exit problems. If a dominated municipality thinks about leaving the JV, because of the increase in shared costs, it must consider that the JV has largely assumed control of relevant operational and managerial expertise related to the fire and rescue services. The municipality may find itself in a lose-lose situation such that it is as undesirable to exit the JV as to stay.

## **Conclusion**

In this article we discuss how two streams of the message in New public management – strict responsibility for performance and inter-organizational cooperation – may conflict in an inter-organizational, municipal JV where there is a dominant actor and dominated actors. We take the perspective of the dominated actors (i.e., the smaller municipalities) in order to show how this conflict affects them.

Previous studies have shown that differences in influence and power among cooperating actors can be compensated for by active, informal communications. However, our study shows that the promised cost savings from the inter-organizational cooperation caused the dominated actors to outsource their services to the JV such that they could no longer exert influence on, or demand accounts of, the relationship even though they were still responsible for the quality of those

services. As a result, the dominated actors' ability to account hierarchically diminished and their other services potentially suffered from insufficient funding. Moreover, the dominant actor's position of influence and power was further strengthened. Our example furthers our understanding of how structural setting surrounding the set-up and use of JV for delivery of public services for dominated actors can lead to underdeveloped horizontal accountability processes, restricting the ability to account vertically for both quality and financial issues. Thereby, we show how the two-folded pressure of strict responsibility and involvement in interorganizational cooperation collide.

The combination of shared responsibility for the production of services with individual responsibility for the quality of services creates the conflict between the two elements of NPM. These two responsibilities should be separated more clearly. According to Hardy *et al.* (2003), one solution is to increase the in-house knowledge of the internal (dominated) actors sufficiently in order to promote a high degree of involvement with, and control of, the external (dominating) actor. However, when services are very complex, a problem arises as to whether efficiency gains are possible in such inter-organizational cooperation. For services in which the demand for delivery is blurred and the ability to evaluate performance by external actors is limited, it may not be possible to make this separation. In that situation, a solution may be to develop the accountability structures that, for example, assign a regional political entity responsibility for complex services. Our study shows that a larger owner, with greater access to resources, likely has the knowledge and expertise sufficient to manage an external service-provider.

We note two limitations in our study. First, we conducted our study at only one time point in the JV inter-organizational collaboration. Future research might address how the role of a dominating actor evolves over time. It is possible that as the dominating actor strengthens its control of knowledge and expertise, the dominated actors' control will continue to diminish. We call for longitudinal studies on how such relationships develop. Second, we studied only one area of services: fire and rescue. We recognize that the unique characteristics of this service may have a bearing on the inter-organizational collaboration of the JV actors. Research into other services, performed in a joint venture arrangement, may permit easier benchmarking of performance. Studies of collaborations that include more easily measurable services where benchmarking

between different producers is possible, are likely to provide different experiences on the boundaries between outsourced production and the municipal's ability to be accountable for performance.

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