

## Effects of Formalized Procedures for Selection of CEOs in Municipally Owned Enterprises<sup>1</sup>

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### Abstract

*Various new organizational approaches have been applied to provide public services on the local level. It includes municipally owned enterprises, which can be regarded as a form of hybrid organizations – standing at the crossroads of the state, market and civil society. In that context several scholars indicate the risk of party patronage in inter-organizational public appointments of hybrid organizations' CEOs. The article investigates whether conducting a prior formalized selection procedure for positions of CEOs of local hybrid companies constrains political power and whether formalized selection procedures are tools of good governance rather than a tool of party patronage. This topic is under researched not only within Central European countries but in wider European context. Our article thus focuses on 139 CEOs of 139 municipally owned enterprises in 88 municipalities. We found that the outcomes of selections indicate an emerging pattern in relation to who manages local enterprises. Although CEOs' political affiliations to certain extent are still present when selection procedures are formalized, the outcomes of selection indicate an emerging professionalization and meritocratic approach rather than strong party patronage when selecting CEOs in those enterprises. This outcome is not greatly determined by the chosen selection procedure. The article thus provides implications for research and policy in the given area.*

**Keywords:** *hybrid organizations, municipally owned enterprises, CEOs, politicization*

**JEL Classification:** H70, D74

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## Introduction

In the quest to improve the quality of public services, New Public Management (NPM) brings to bear a set of prescriptions including the corporatization of providing public services. This structural change has been introduced in many OECD countries and since transformation of the economy and public sector also in the countries of Central and Eastern Europe. Among other things this structural approach resulted in an increased number of hybrid organizations operating in provision of public services (Aars and Ringkjøb, 2011).

Hybrid organizations operate on the border between market and public structures. On the one hand these organizations are established by a public entity, manage a significant measure of public property, and are considered by the public to belong in the public realm. On the other hand, they are legally regulated by the Commercial Code. This *hybridity* – the combination of contradictory features within one single unit – is thus accompanied by special challenges related to the unit's personnel policy and its politicization.

To better understand personnel policy of hybrid organizations in Central and Eastern Europe this article looks at 139 municipally owned enterprises (MOEs) in Slovakia. The article is structured into six sections. The first is devoted to current theory related to hybrid organizations and the challenges connected with their operation. It is followed by an overview of the context of MOEs in Slovakia. The third part describes particular research methods. Further, the article provides findings and explanations, discussion and draws some conclusions.

In terms of policy implications, the article discusses the importance of introduction of formal rules – formalized selection procedure for executive positions in MOEs. It indicates that formalized procedure, either with prior open procedure or without, opens CEOs positions in MOEs to candidates with university education and former managerial experience. From managerial standpoint, the introduction of formalized selection procedures for selection CEOs may thus increase the formal qualification necessary for CEO position.

## 1. Hybrid Organizations and Patronage

Almost 30 years ago, inspired by New Public Management, many governments in the western hemisphere started to discuss improving public services provision through corporatization and the introduction of more competition. Among other developments, this resulted in the formation and growth of municipal enterprises (Grossi and Reichard, 2008), also known as *hybrid organizations*. Billis (2010) in that regard argues that we are in a period of the increasing hybridization of organizations.

As suggested in Moore (1995), the formation of hybrid organizations was expected to improve the quality of public sector management and was understood as an effort to imitate the structure and efficiency of the private sector, while ensuring public interest objectives through public ownership (Preker and Harding, 2003). Kickert (2001) defines hybrid organizations as those that can be found in the range between commercial firms and government agencies. In practice, however, one hybrid organization can differ from another in terms of ownership, financing and organizational structure.

In addition, defining hybrid organizations, organizational theory also discusses challenges related to their operation resulting from the mixture of different values and different mechanisms of governance, and mixtures of coordination mechanisms, rationalities, cultures or action logics (Brandsen, Karré and Helderman, 2009), as the hybrid form alters the relationship between citizens, elected politicians and organizations performing public services (Grossi and Thomasson, 2015). To Pollitt and Talbot (2004) these organizations stand at the crossroads of the state, market and civil society. They are usually either former state agencies or organizations that originally emerged from civil society and were later incorporated into the public sector. The introduction of hybrid organizations changes how information flows between citizens and elected politicians (Hodge and Coghill, 2007), and therefore among the conflicting characteristics within the hybrid organization are applied model of governance, accountability measures, and level of appropriate political control.

Regarding accountability, not only vertical but also horizontal accountability (the relationship between politicians and hybrid organizations) is discussed in literature (e.g. Shaoul, Stafford and Stapleton, 2012) and relates to political discretion in personnel policy. Here in addition to the classical dichotomy of the roles and positions defined for the public sector – bureaucrats and politicians (Peters and Pierre, 2004), Moore (1995) stresses the role of public managers in creating public value when managing refuse collection or managing parks. Within the corporate governance system of private firms, their managers – CEOs – are the key decision-makers, and the article explores the allocation of those actors to hybrid organizations by politicians. According to Koppell (2006), “hybrid organizations are more difficult to control, largely to the fact that hybrids behave like regulated organizations rather than extension of administrative agencies.”

Domains of formal political discretion in personnel policy relate to selecting CEOs to hybrid organizations and determining levels of remuneration (Meyer-Sahling, 2006). Inter-organizational appointments of CEOs are relevant in this regard. Because of “the rise of the unelected” (Vibert, 2007) who manage a huge amount of public funds, and their decisions impacting citizens’ lives and weakening

traditional mechanisms of hierarchical control, some scholars argue for more political control. According to Stevens (1997) and Gradus (2005), by giving competencies to organizations and by allowing them to enter the market, they develop their own identity and cause opportunistic behavior. They will become too focused on themselves and they will not be able to react adequately to impulses from the surroundings (Stevens, 1997). Therefore, they can become less dependent on political actors. Government has less to say on how the organizations provide services and how they spend public money. Grossi and Reichard (2008) argue that “due to the lack of integrative steering and to the diverging interests of the various corporations, the different elements of a municipal group develop centrifugal powers and tend to follow their own individual interests”. Another group of scholars discusses the risk of party patronage in the allocation of CEOs to public enterprises, resulting in low competence of its leadership (e.g. Caiden, 1991; Vinzant and Roback, 1994). Here patronage refers to the power of political leaders to distribute public sector posts. Kopecký, Mair and Spirova (2012) claim in this regard that party patronage is rather widespread in post-communist countries due to institutional and cultural legacies of communist regimes. The literature on patronage also explores the development of accounts of patronage, mainly meaning motives for party patronage (e.g. Dahlström, 2009). In that regard Flinders and Matthews (2010) discuss patronage as corruption (reward-seeking) and patronage as governance (control seeking). Rewarding party loyalty, repaying political debts and/or developing clientelistic networks to maintain electoral support (Mainwaring, 1999) is relevant in patronage as corruption, however expertise and control are relevant for patronage as governance where political parties want to demonstrate governing competence. According to Mair (2003) decline in party membership and government complexities might have led parties to look beyond their organizational confines when they look for suitable candidates. Parties thus may be interested in loyal but also efficient management of state offices (Peters and Pierre, 2004). Carboni (2010) in this context points out “separation of politics from administration has paradoxically resulted in the new forms of political control and mechanisms of integration between political and bureaucratic elites”. Therefore, political control with the aim of functional integration and coordination between those elites is needed. Some scholars in this context stress the need to re-examine the concept of patronage as a “pathological legacy of the past requiring condemnation and elimination” (e.g. Bearfield, 2009). According to Aberbach and Rockman (1988) thus appointments may create more alignment between political and administrative structures. Kopecký (2011) argues that “patronage conceived as a form of control can still denote a type of state exploitation in the literal state of the word, but more in the spirit of *use* and *management* than of *misuse* and *mistreatment*”.

Scholars also adopt different indicators to measure the level of politicization (Nekola and Kohoutek, 2017). O'Dwyer (2004) looks at the party turnover, Meyer-Sahling (2004) at political discretion over personnel policy and Kopecký, Mair and Spirova (2012) at the range and depth of party appointments to publicly funded institutions. To Sancino, Grossi and Sicilia (2016) from that perspective rewarding political allies is perceived as a bad governance tool of politicians used to gain support and consensus in specific electoral constituencies.

According to Nekola and Kohoutek (2017) the mechanism of appointments to the executive positions can vary. Professional approach is based on a candidate's merit and professionalism with little space for political interference (e.g. making the final choice from a list of pre-selected candidates) (Peters, 2013; Beblavy, Sinicakova-Beblava and Odrusova, 2012). The other approach is based on strong political control – by appointing a candidate directly affiliated to a given party (partisan politicization, party patronage). Within the concept of hidden politicization political controls can be organized covertly through politically motivated appointments of a person with informal links to the politician and/or political party (Nekola and Kohoutek, 2017).

Flinders and Matthews (2010) in that regard distinguish between patronage appointments, which are those made by elected politicians without any encumbrance in terms of due process or transparency and with centralized power in the hands of the patron, and public appointments. Here public appointments account for decisions made by elected politicians but against explicit standards as indicated in Table 1.

Table 1

**Patronage as Corruption and Patronage as Governance**

	Patronage as corruption	Patronage as governance
Party patronage	yes	yes
Politician's discretion	high/pure	low/constrained
Process	private	public
Advertised position	no	yes
Nature of competition	closed	open
Instrument of...	favor	governance
<b>Baseline</b>	<b>bad governance</b>	<b>good governance</b>

Source: Based on Flinders and Matthews (2010).

Meyer-Sahling and Veen (2012) also suggests that a possible way to constrain politicization (for promoting personal or party goals) is to introduce formalized selection procedure for the defined position. The formalized selection procedure, and the formalized procedural constraints, may limit the degree of political discretion (Sancino, Grossi and Sicilia, 2016; Meyer-Sahling and Veen, 2012). According to Meyer-Sahling (2006), compared to the free choice of politicians the

formalized procedure may pre-define the pool of eligible candidates a politician can recruit or appoint, and they may be obliged to select candidates who meet pre-defined standards of qualification or experience. Within this line of assumption, a formalized procedure of selection can be a tool for good governance and allow attracting talent and broadening governing knowledge (Flinders, 2012). The job descriptions with professional requirements may constrain political discretion (Office of the Commissioner for Public Appointments, 2005).

Very few studies exist related to the operation of patronage and the effects of formalized selection procedure. Although the literature indicates that there are important differences in how much and when governments have politicized executives (Dahlström, 2009), the public discussion is often rich with political folklore and personal judgment, and the facts are not available (Flinders, 2012). The main aim of this paper is therefore to provide data and find out whether there is any effect of prior formalized selection procedure when selecting CEOs for local enterprises by politicians. We try to better understand the politics and governance of patronage and identify commonalities as well as patterns, and maybe even to provide a few comments about the *changing* nature of democratic governance in the area of governing MOEs in Slovakia.

## 2. Research Context – Municipally Owned Enterprises in Slovakia

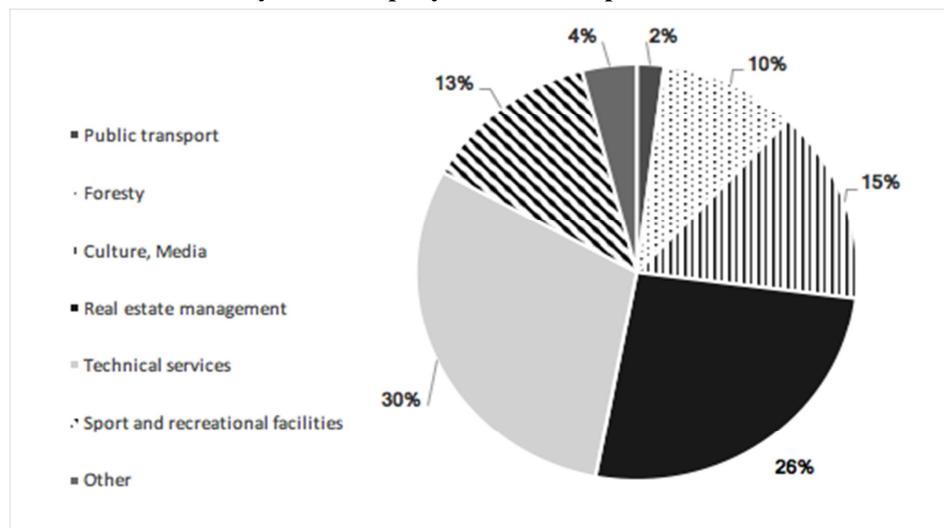
The year 1990 was a starting point for public sector reforms not only in Slovakia but also in many other Eastern European countries. Among other developments, the formation of local municipalities started with an aim to provide more political autonomy and competencies to these entities. One of the given competencies relates to the possibility of using municipal property for business purposes. Slovak municipalities can therefore establish for-profit organizations, which are governed by Commercial law. All together Slovakia has 2 890 municipalities, of which 140 have a status of a city given by the Act on Municipalities. There is more than half of Slovak population living in these 140 Slovak municipalities and approximately half of public expenditures at local level (INEKO, 2018). The paper focuses on 100 largest municipalities. We use the term municipally owned enterprises MOEs throughout this article. We do not use a term public company because a company's shares are traded freely in a stock market, which is not the case in Slovak municipalities. As mentioned above, Slovak municipalities may create public-owned enterprises, which can be either wholly owned by a municipality (100% ownership) or partially owned by a municipality (less than 100%). The MOEs in Slovakia provide many types of public services – they organize waste collection and disposal, build and/or administer road infrastructure,

provide the water supply and wastewater management, conduct administration and sales/acquisition of real estate, provide transportation, administer urban forests, and manage health and social services.

According to Kubíková (2016), as of 2016 there are 179 MOEs in 100 Slovak municipalities in which a municipality has 100% ownership. These enterprises mostly operate in the areas of technical service<sup>2</sup> provision, administration of real estate, and cultural services etc. From the legal point of view (Slovak Commercial Code) the most widespread organizational form of MOEs is the Limited Liability Company.

Figure 1

**Main Business Activity of Municipally Owned Enterprises**



Source: Kubíková (2016).

There can be several governance bodies in Limited Liability Companies – the main statutory and executive body<sup>3</sup> (hereinafter “CEO”), board of directors and general meeting (in enterprises fully owned by local governments represented by the mayor). As for the selection of the CEO, in addition to the Commercial Code, the Law on Municipalities is also relevant; based on this Law the selection of the CEO is conducted by the municipal council. The Code does not explicitly require the conducting of a prior formalized selection procedure when selecting

<sup>2</sup> Technical services are various services of technical character that municipalities provide, such as waste management, road maintenance, maintenance of public green space, cemetery services and maintenance of street lighting.

<sup>3</sup> Bulková, Kurian and Šípoš (2012) point out that politicians in municipalities tend also to occupy positions in managing boards of MOEs.

the CEO, and the municipality can choose how to select their enterprises main managers. Thus, the appointment and selection of the CEO in municipal enterprises is in the hands of municipal council and mayor and as mentioned below some organizational arrangements in the public appointment process can be put in place to formalize and structure this process.

Although there is no explicit requirement to conduct formalized selection procedure when making these kinds of public appointments, there are at least two developments to be mentioned here. First, the government started to define standards for selection of CEOs in state enterprises (these are not legally binding for local governments). It defined the rules in 2011 by a Government Resolution<sup>4</sup> requiring the conducting of a prior formalized selection procedure before making public appointments. The Resolution also defines the main educational requirements for a CEO, among others requiring university-level education to be completed. Second, selection of CEOs was negatively perceived by the general population. TI Slovakia and the Focus Agency conducted a survey on the recruitment process in cities' organizations in 2007. According to this survey, 51% of respondents perceive the recruitment process in the municipality as one of the most corrupt decision-making areas (Šípoš, 2012). TI Slovakia developed a benchmarking system, and since 2010 it has pushed local governments to conduct prior formalized selection procedure and criticized direct nominations without prior formalized selections.

Municipalities in Slovakia have two options concerning a selection procedure of CEOs. A municipality can select CEO using prior formally structured selection procedure or as a direct political nomination and appointment by political leadership of a given municipality. Either way, final decision and approval of a candidate is always made by municipal council. Prior formally structured selection procedure may have a form of public hearing. Therefore, for the purpose of this article we distinguish between two selection procedures: prior formal selection procedure and without prior formal selection procedure.

As for the comparative perspective empirical research conducted by Kopecký, Mair and Spirova (2012) looked at the public appointments in 15 European countries at the central government level (Slovakia was not included). The study found out that the level of patronage varied across the countries with Czech Republic, Austria, Bulgaria, Hungary, Germany, Italy, Greece and Spain slightly above the average value for Europe. According to Hustedt and Salomonsen (2014) who compared Germany, Belgium, the UK and Denmark politicization mechanisms do not continue to increase, but stabilize. Šípoš (2012) argues that political parties

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<sup>4</sup> Read more at:

<[http://www.rokovania.sk/File.aspx/ViewDocumentHtml/Mater-Dokum-130523?prefixFile=m\\_](http://www.rokovania.sk/File.aspx/ViewDocumentHtml/Mater-Dokum-130523?prefixFile=m_)>.



consider inter-organizational public appointments to publicly owned enterprises to be part of the party's personnel policy. Such a situation may, according to Černá and Kohoutková (2015), create a number of systemic problems, for example large-scale and cyclical fluctuations after each election may disrupt authorities' operational capability.

### **3. Research Question, Hypothesis and Methodology**

The article looks at inter-organizational appointments organized by municipalities and concentrates on WHO governs MOEs in Slovakia and to what extent that is influenced by HOW the selection of CEOs to MOEs was conducted. To provide the answer on WHO governs MOEs we look at 2 variables – education and carrier path as well as political affiliation of CEOs. Within the concept of professional, meritocratic approach to selection CEOs have meritocratic background and do not have political affiliation. The variables within patronage approach are opposite ones – political affiliation and less merits of CEOs. In between stands hidden politicization when CEOs have professional background and hidden political affiliation (Nekola and Kohoutek, 2017). To explore those variables, we have defined additional 6 partial research questions provided below.

The first one focuses on the formal education that stands for a variable on merits for CEO position. In Slovakia's state enterprises candidates for CEO position are required to complete university-level education. *Does the requirement for university-level education has become a standard for MOEs as well? Does the selection procedure influence the level of formal education of COE position in MOEs?*

To further explore the level of professional background the second research question looks at the previous managerial position held by the selected CEOs in MOEs. This variable seems to be relevant as it goes deeper in understanding of required skills needed for CEO position and recognition of the principle of merit in public appointments (Sancino, Grossi and Sicilia, 2016). A certain degree of expertise that provides for competence can be an important complementary criterion when selecting for these types of positions (Scherlis, 2009). The second research question is therefore following – *does the previous managerial experience has become a standard for MOEs and does the selection procedure influence the share of COEs with previous managerial position?*

Within the variable of career path, we also look at the managerial experience gained from private sector and define following research question – *does the selection procedure influence share of COEs with previous private-sector managerial experience?*

We also explore political affiliations of selected CEOs. Based on Jalali, Silvia and Moreira (2010) and Kopecký, Mair and Spirova (2012), when a CEO holds or has held any political position in the past, the motivation to appoint him to the CEO position might be to reward his loyalty and/or to gain additional political support. As it signals political trustworthiness and loyalty, party affiliation is seen as an obvious criterion for parties to select appointees (Manow and Wettengel, 2006).

However, data on party members (e.g. CEO membership in a political party) are not publicly available in Slovakia. What is available is data on local deputies in municipality councils. The local deputies, who represent political parties in municipality councils, have certain bargaining power when the selection of CEOs is conducted in municipality councils without a prior formalized selection procedure. *Therefore, here we explore if CEOs in MOEs have political affiliation and also if CEOs selected by prior formalized selection procedure have less significant political affiliations than those CEOs selected without prior formalized selection procedure.*

In addition to the effects of selection procedures on the level of professionalization of CEOs positions, we also look at the effects on CEOs gender distribution. Formalized power structures such as political parties in Slovakia are dominated by men, especially party leadership. There is no chairwoman in relevant Slovak political parties, and about 36 percent of deputy leaders are women (EC, 2017). The EIGE database (2017) shows that women still account for less than 1 in 16 CEOs in the largest publicly listed enterprises registered in EU Member States. The significant underrepresentation of women in CEO positions is also salient in Slovakia, where the proportion of female CEOs is 10%. Several experiments with the selection mechanisms resulted in the change of gender representation. The example is the selection procedure in American symphony orchestras based only on testing skills “behind the curtain” – without knowing the gender of the applicant. This procedure increased the share of women in these bodies (Goldin and Rouse, 2000). *Therefore, we explore if the selection procedure influences the share of women in COE position in MOEs.* We also look at the effects of selection procedures on CEOs age.

As for the methodological approach to explore WHO are the CEOs of MOEs we looked at their basic demographic characteristics and previous career paths (see Table 2):

- basic demographic characteristics:
  - gender,
  - age,
  - whether they hold a university degree.

- previous career paths:
  - whether CEOs have management-level experience before becoming CEO of the MOEs,
  - whether CEOs have previous private-sector managerial experience,<sup>5</sup>
  - whether the given CEO holds or has held any political position.

We also focused on the selection procedures chosen by municipalities. Each CEO has to be formally approved by the municipal council, and there are two main selection procedures:

- municipal council decisions with prior formalized selection procedure,
- municipal council decisions without prior formalized selection procedure.

Table 2

**Demographic Characteristics and Previous Careers Paths of CEOs**

	Male	Female
Age up to 40	11	2
Age from 41 to 50	40	15
Age 51+	66	5
BA degree (education)	3	0
MA degree (education)	87	16
PhD degree (education)	7	2
High school (education)	19	4
Previous private-sector managerial experience	62	8
COEs selected through prior formalized selection procedure	57	6
CEO holds a political position in municipality	19	2
CEO held other political position or ran for elected office	27	5

Source: Authors.

The data is gathered from three main sources. The first is data from the CVs of the CEOs. The collection of CVs was conducted through e-mail requests. CVs provide information about education, previous professional experience, gender, and age. Any elected office is regarded as a political function. Fair Play Alliance administers an open space database of all elected officials in Slovakia since 1994. Hence, we can investigate each CEO's current or previous political experience in elected office. The analysis focuses on one electoral term 2014 – 2018, but we also take into account each CEO's previous political functions and candidacy at all levels of governance (local, regional, national).

The analysis is conducted on a sample of 179 MOEs in 100 largest Slovak municipalities. However, we were able to collect data about 139 CEOs. In total 40 MOEs and/or CEOs did not send the requested information (CV), and this information was also not available on the website. The final sample consists of

<sup>5</sup> Experience from the private sphere may also be considered appropriate experience for CEOs in MOEs. However, there is no evidence that public managers with private-sphere experience perform better than managers without previous experience in the private sector.

139 MOEs in the 88 largest municipalities in Slovakia. It is important to stress that our data does not provide information on the number of CEO candidates per MOE.

To provide answers for the above-mentioned questions, quantitative analysis is applied, and the methods and instruments of descriptive statistics are used. Statistical significance (chi quadrat test, pivot tables) is also tested. The test makes it possible to confirm or reject the zero hypothesis that there is no significant relationship between the observed variables. All variables are categorical variables and are in binary code (0, 1). Therefore, we do not perform normality test.

#### 4. Findings

The article looks at the effects on WHO governs MOEs in Slovakia, based on HOW the selection of CEOs to MOEs was conducted. With regard to the application of prior selection procedure, all CEOs were divided into two groups:

- the first contains CEOs appointed through a prior formalized selection procedure. In total this sample consists of 63 CEOs.
- the second contains CEOs directly appointed without a prior formalized selection procedure. This sample consists of 76 CEOs.

In this paper one main and 6 partial research questions were formulated with the objective to identify the effects related to applying two types of formalized selection procedures when selecting CEOs in MOEs as well as to find out if there is any pattern related to the characteristics of the CEOs without regards to the used selection procedure. The following text provides the findings.

As for education, a strong majority of CEOs have undergraduate or postgraduate university education. A majority of CEOs have master's degrees or the equivalent in four major fields: engineering and construction (36.7%), business (24.5%), forestry (9.4%), and law (7.2%). Prior formalized selection procedure seems to generate a higher share of CEOs with tertiary education compared to direct selection without prior formalized procedure, which produces twice as many CEOs without university education (see Table 2). This difference is statistically significant. About 70% of these CEOs have graduated universities in technical or economic fields.

The CEOs's main task is the management of enterprises, and therefore previous managerial experience is also explored in this paper – i.e. managerial experience and managerial experience from the public/private sphere. In the case of Slovak MOEs, the vast majority of CEOs meets this requirement (see Table 3). Approximately, 9 out of 10 CEOs in MOEs have had previous managerial experience and about half of the CEOs have had previous experience from the private

sphere. Both investigated types of selection procedures result in a comparable preference for CEOs with previous managerial experience, as approximately 9 out of 10 selected CEOs have previously worked as managers in the public or private sphere. In other words, we do not observe that prior formalized selection procedures lead to a higher share of CEOs with managerial experience. Moreover, there is no statistically significant difference between these two approaches of CEO selection in relation to previous experience from the private sphere. The data indicates rather that selections without a prior formalized selection procedure have resulted in a slightly higher ratio of CEOs with previous managerial positions in the private sector (2 p.p.).

Due to the fact that MOEs are related to political decision-making, the previous political experience of selected CEOs is also explored – i.e. political office or candidacy for political office. The data shows that approximately one out of seven CEOs held a political office in a municipal council at the time of the selection procedure. The type of selection procedure does not make any significant difference in terms of selecting CEOs with previous political experience.

Approximately half of the CEOs who in the period of CEO selection for MOEs held a political mandate in a municipal council were selected through a prior formalized selection procedure. About 63 % of CEOs with experience with other political mandates or candidacy were selected without a prior formalized selection procedure. Nevertheless, the data does not prove a significant relationship between political experience and CEO selection procedures in MOEs in Slovakia.

Table 3

#### Age, Gender and Education of CEOs and Selection Procedure

	Age			Education		Gender	
	Age up to 40	Age between 41 – 50	More than 51	Undergraduate or postgraduate university education	No university education	Male	Female
With prior formalized selection procedure	5 7.9%	23 36.5%	35 55.6%	56 90.3%	6 9.7%	57 90.5%	6 9.5%
Without prior formalized selection procedure	8 10.5%	32 42.1%	36 47.4%	60 77.9%	17 22.1%	60 78.9%	16 21.1%

*Note:* The level of statistical significance (p) of the chi-square tests comparing gender/age of CEOs and selection procedures; do not reach the value of 0.01, or 0.05 respectively, therefore, we cannot reject the zero hypothesis, which states that there is no significant relationship between the selection procedure and the gender of CEOs in MOEs in Slovakia.

The level of statistical significance (p) of the chi-square test comparing education of CEOs and selection procedures does reach the value of 0.08, therefore, we can reject the zero hypothesis, which states that there is no significant relationship between the selection procedure and the education of CEOs in MOSs in Slovakia.

*Source:* Authors.

Women are underrepresented in CEO positions in MOEs. Majority of CEOs are men and only 15.8% of CEOs are women. The findings indicate that selection without a prior formalized selection procedure increased the chances for male CEOs. Only 10% of female CEOs were selected via a prior formalized procedure, compared to 21% of selected female CEOs without a prior formalized procedure. In other words, we do not observe that prior formalized selection procedures result in a higher share of female CEOs.<sup>6</sup>

Since the formal selection procedure takes an experience into account and the proxy for experience can be the age of selected CEOs. We observe that the type of procedure does not have a significant impact on the age variation of CEOs. The age groups of CEOs who were selected via a prior formalized procedure do not markedly differ from the age variation of CEOs selected without prior selection procedure. Approximately half of the CEOs, regardless of which type of selection was applied, are more than 51 and only about one tenth of CEOs are less than 41 years old.

Table 4

**Managerial and Political Experience of CEOs and Selection Procedures**

	Previous experience with managerial position		Previous managerial position in private sector		Political mandate (2014 – 2018) in municipality council	Other political mandate or candidacy
	YES	NO	YES	NO	–	–
Prior formalized selection procedures	56 88.9%	7 11.1%	31 49.2%	32 50.8%	10 47.6%	12 37.5%
Without prior formalized selection procedures	67 88.2%	9 11.8%	39 51.3%	37 48.7%	11 52.4%	20 62.5%

*Note:* The level of statistical significance (p) of the chi-square tests comparing previous managerial experience/managerial experience in private sector/political experience of CEOs and selection procedures; do not reach the value of 0.01, or 0.05 respectively, therefore, we cannot reject the zero hypothesis, which states that there is no significant relationship between the selection procedures and previous managerial experience of CEOs in MOEs in Slovakia.

*Source:* Authors.

## 5. Discussion

There are slight differences in the outcomes of the given two approaches to CEO selection (see Table 5). They relate to gender, education level and experience with private sector management.

<sup>6</sup> It is important to note that our data does not provide information about the number of CEO candidates per MOEs.

A strong majority of CEOs have undergraduate or postgraduate university education. This indicates that in both selection procedures the requirement for university-level education has become an unwritten standard for MOEs. However, university education is a more important selection criterion when the CEO is selected with prior selection procedures. Prior formalized selection procedures generate statistically significantly higher share of CEOs with tertiary education compared to direct selection without prior formalized procedure.

The data indicates that CEOs are not only political managers who were directly nominated by a political party from one managerial position to the other, and a formalized procedure opens these positions to wider experience. This seems to confirm existing research that formalizing the selection procedure may lead to recognition of the principle of merit in public appointments (Sancini, Grossi and Sicilia, 2016). This finding also fits into Scherlis' (2009) finding about selection of qualified appointees when pursuing highly efficient government. The explanation can also relate to the technical character of the provided services – the majority of the sample are local services operated in the area of providing technical services. The outcomes of these kinds of services are measurable (Brown and Potoski, 2003) and therefore politically sensitive – the parks need to be serviced and roads cleaned in a timely manner. That creates the need for good management skills. The sheer proximity of voters and tangibility of managerial results may lead politicians to prefer a meritocratic approach and functional politicization to party patronage. That argument would stand for the need to really allow the professionals with political links to manage local public services, and party patronage not to prevail here. To better explore this issue and understand such hybrid organizations as MOEs, further research is needed.

Both politics and business are dominated by men, in both Slovakia and the Western countries. It is therefore not surprising that we observe a similar pattern in MOEs, where 15.8% of CEOs are women. According to EIGE (2017) women account for less than 1 in 16 CEOs in the largest publicly listed enterprises registered in EU Member States. The significant underrepresentation of women in CEO positions is also salient in Slovakia, where the proportion of female CEOs is 10%. Our findings show a slightly better representation compared to that provided by the EIGE data, however, it still proves the underrepresentation of women in the given positions. The data shows that when selecting without a prior selection procedure more women become CEOs. That indicates concentration of power to a socially exclusive group. According to Jha and Sarangi (2018) low representation of women is associated with increased risk of corruption and may have implications for policy outcomes and (Svaleryd, 2009). Here further research and data collection would be needed to find out the gender structure

among candidates for the position when conducting prior selection procedure. The implications of gender representation in COEs position would be also needed to be explored.

The article has several limitations due to availability of data on selection procedures in MOEs. One of the limitations is that our data does not provide information on the number of CEO candidates (inputs) per MOE. We were able to collect data about 139 selected COEs (outputs from selection procedure) in 139 MOEs which operate in 88 largest Slovak municipalities. As noted above, the given variables cannot by themselves capture the complexity of patronage appointments, however, they can indicate a change in the level of professionalization in the given area. The article investigates formal qualification of COEs (education, experience), however, it does not measure actual performance of COEs via sales or economic health of MOE. This is a room for further research in this area.

Table 5  
Summary of Findings

	Direct political decision	With prior formalized selection procedure	Findings
<b>Gender</b>	Lower representation of women	Higher representation of women	Slightly different outcomes when applying different approaches: slightly higher representation of women when selecting without prior selection procedure
<b>Age</b>	Higher age variation	Lower age variation	The same outcomes resulting from different procedures
<b>University education</b>	The same	The same	Slightly different outcomes when applying different approaches: lower preference for university education when selecting without prior selection procedure
<b>Managerial experience</b>	The same	The same	The same outcomes resulting from different procedures
<b>Private sector managerial experience</b>	Higher	Lower	Very similar outcomes resulting from different procedures
<b>Political affiliation</b>	Lower	Higher	The same outcomes resulting from different procedure

Source: Authors.

### Conclusion: Emerging Pattern and Slight Premium for Formalized Procedure

Hybrid organizations are expected to combine dual and often conflicting goals (Watson, 2004) that create many challenges related to their institutional setting. Their position between political, administrative and market realms invites special attention in regard to who is allocated the CEO role. The purpose of this article therefore is to begin the exploration of whether formalized selection



procedures bring different outcomes in relation to who manages MOEs in Slovakia, or whether there is already an embedded pattern related to requirements for this position. For this purpose, quantitative research was conducted that tested 6 personal variables of CEOs operating in MOE in Slovakia. The given proxies cannot by themselves capture the complexity of patronage appointments; however, they can indicate the level of professionalization in the given field.

There are three partial conclusions and one main conclusion that resulted from our research on this topic. The first partial conclusion is that Slovak local governments are not monolithic units in relation to the approach they choose to select CEOs for their MOEs. Almost half of the CEOs were selected through a prior formalized selection procedure and about half not. That can be explained by intense NGO and media pressure to decrease politicization and increase professionalization on the local level.

The second partial finding indicates that although there are two distinct approaches employed to select CEOs, both approaches result in quite similar outcomes. The data shows an emerging pattern in age, education and managerial experience. CEOs in Slovak MOEs have a similar age, most of them attended universities (the majority of CEOs have a master's degree, and the most common educational fields are *business*, *administration* and *law*), they have previous managerial experience, and political affiliation is not a barrier for entering a managerial position in this realm. This pattern indicates a certain level of institutional learning resulting in the standardization of basic requirements for the CEO position at the local level in Slovakia. Although political affiliation and patronage has not diminished by formalizing selection procedures, the formal selection can constrain some of the characteristics of the CEOs (it supported education, and managers from the public as well as private sector) and thus it could lead to strengthening the professionalization of the positions.

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