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## HYBRID FORMS OF PRIVATISATION

### ABSTRACT

*The intransigence of public and private ownership has been the common characteristic of traditional capitalism and socialism. However, this no longer holds true for post-socialist societies oriented towards the liberalisation of society; neither does it hold true for post-capitalist societies, which are now oriented towards the socialisation of the existing systems. According to the thesis above, hybrid forms of privatisation and ownership should be considered highly relevant to both types of societies. Hybrid forms of privatisation create the possibility of some sort of mezzo-corporativism, which allows for a relatively smooth and co-operative relationship between private and public ownership. However, at the same time it also creates ambiguous relationships between stakeholders. This paper will describe such hybrid forms of privatisation in different fields of social services and attempt to evaluate their policy implications.*

*Key words: privatisation, hybrid forms of privatisation, public services, co-operation between public and private sectors*

### Introduction: privatisation, power and coalitions

Privatisation processes are usually described by aggregate definitions, which contain more or less relevant phenotypes. Such is Daintith's definition (1994: 45), for example, which perceives the privatisation process as an aggregate of the following dimensions:

- change of ownership from public to private,
- reduction of activities or assets,
- change in legal status,
- liquidation,
- change in economic status (contracting out),
- withdrawal of monopoly and development of a competitive environment.

As one can see, this is a rather broad definition of privatisation, since it does not contain only the transfer of assets from public to private agencies. On the other hand, there are also more narrow (or rather, too narrow) definitions, which perceive privatisa-

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tion processes merely as the transfer of rents from public to private agencies (Chamberlain, Jackson 1987).

A more advanced concept is suggested by the World Bank in its report, "The Third Wave of Privatisation". Here, privatisation "does not necessary imply an outright sale of public assets to private entrepreneurs. Privatisation represents a much broader concept, which includes any form of expanded private sector participation in social sectors. Such activities can take the form of private ownership, private financing, private management, or any combination thereof" (Torres, Mathur 1996: 3).

We prefer this sort of broader privatisation concept, which is not limited to the transfer of assets but also includes the transfer of activities from public to private agencies. The reason we prefer such a broad concept lies in the specific nature of social services, which are almost without exception a synergetic mix of material assets and personal activities generated by providers and users together. Additionally, we would like to suggest a more rigorous legal definition of privatisation, which should be perceived as any transfer of property rights from public to private agencies (Rus 1993).

Property rights may be classified in a traditional, legal way as: *ius disponendi*, *ius utendi* and *ius fruendi*. In organisations, the following sets of decisions coincide with these:

- *ius disponendi* is usually implemented through constitutive decisions, such as buying or selling assets, establishing or closing organisation, nominating management and determining basic rules and regulations;
- *ius utendi* is usually implemented through business strategies, optimisation of resources, risk-taking activities and entrepreneurship;
- *ius fruendi* is mainly implemented through an allocation of profit, determination of income and other benefits.

Preference for this definition of privatisation lies in the fact that it focuses on interpersonal relations between two or more agents and not on the owner of the assets (Rus 1994). Such an orientation is even more strongly argued by Saunders and Harris (1990: 66), who warn that "we generally think of property as defining our relationship to certain things like: my house, your company, his ticket, her share certificate. However, it is more accurate to think of property as defining sets of power relationships between people". Following the same line of thought, we might add that privatisation - as it is conducted in the field of social services - does not deal primarily with changes in ownership but with the transfer of property rights. Therefore, privatisation is not primarily an economic process of appropriation but a legal process of re-distribution of power through re-allocation of property rights.

If we accept this approach to privatisation, it becomes more understandable why economic analyses of privatisation are becoming less and less effective and why socio-political explanations are becoming more and more relevant. It is no great surprise then that researchers like Saunders and Harris (1990: 70) are coming to the conclusion that "over the last four or five years there has been a gradual shift away from the original economic objectives and towards primary emphases on political and sociological goals".

Taking into account the political nature of privatisation, we might anticipate that the agents involved in privatisation processes are not “stakeholders”, interested only in profit-sharing or shareholding but rather political agents interested in the re-distribution of power. Although they might have certain economic, professional, humanitarian or other goals, they should be treated primarily as holders of political power, which is used to promote their individual or group interests.

As individuals, they are not relevant to the kind of power game which is going on in privatisation processes; neither are they relevant as members of an interest group, since they do not behave like political agents and might have only a marginal role in these processes. Those stakeholders who are organised through coalitions should play the central role.

However, we should bear in mind that coalitions in work organisations are quite different from those which operate in political arenas. As a result of the greater division of labour in work organisations, they are more interdependent, include higher levels of solidarity and are more co-operative (but also more competitive) than other organisations (Pfeffer 1981). Since they are not exclusively distributive but also productive coalitions they do not tend towards a minimum winning size (Riker 1962) with the intention of ensuring that they share their rewards with as few others as possible. They know that the “varying sum game” in work organisations is not a utopia but a real opportunity. They therefore try to establish a coalition of maximum winning size more frequently.

Since here we are dealing with coalitions as political entities, we should not neglect the important distinction between interest groups and coalitions. Bachrach and Lawler (1980) draw a strong distinction between them. For them, interest groups are social and coalitions are political entities. The latter are political entities precisely because they integrate groups with different interests into a common political program.

Following the statements above, we will try to demonstrate how particular interest groups of stakeholders generate or dissolve alliances between themselves through the privatisation processes. We are also interested in seeing how certain policies and models encourage or discourage the formation of coalitions between different stakeholders, such as politicians, public administrators, managers, professionals and customers.

On the basis of previous research, we expect that:

- most stakeholders will establish horizontal coalitions integrated through negative goals (IDE 1980);
- managers will create short-term and issue-specific coalitions (IDE 1980);
- coalitions which are able to include internal and external interest groups will tend to become dominant coalitions (Pfeffer 1981);
- “diagonally” integrated and functionally different groups will become centres of risk absorption (Thompson 1967).

## **Macro-level dilemma: privatisation of the welfare state – neo-liberalism or neo-corporativism?**

According to a number of policy-evaluation reports neo-liberal type of privatisation have had the least desirable effects in Africa. Owoh (1996) criticises World Bank recommendations for health care in Africa as an example of a neo-liberal policy of privatisation. This policy has promoted:

- market-driven institutions,
- the importance of efficiency,
- the self-interest of stakeholders,
- competitive individualism,
- anti-stateism.

Such a shift away from collective welfare and community responsibility and towards market-driven privatisation has caused disorganisation at both - the institutional and community levels. In spite of this empirical evidence, the author believes that privatisation might have also benign effects if it respects local needs and uses local resources.

Similar effects of the privatisation of public services can be found in Latin America and Eastern Europe. Laurell (1994) reports that nowadays privatisation does not mean the mere enrichment of physicians but also the opening-up of the field for capital accumulation. Through privatisation, large US insurance and hospital corporations have been increasingly penetrating the health sector. This trend is seen in most Latin American countries, but the process is faster and more drastic in areas with authoritarian political regimes.

In Eastern Europe, so-called “shock therapy” has been legally promoted in many countries during the last decade. The shock of rapid deregulation “is a shock to primitivism” (Kennedy 1991). It has been jointly promoted by West and East, and its main consequence is that the East has become increasingly similar to the Third World. Interestingly enough, such a “market democracy” was long ago replaced in the West by “modern technocratic functionalism”. This promotes “modern technocratic schemes of public-private policy management” instead of laissez-faire capitalism.

Kennedy believes that an alternative to shock therapy could be implemented in the East. The alternative is a kind of social movement oriented towards public-private partnership and mixed economic forms familiar to all modern developed market democracies.

This sort of alternative model is nothing more than a kind of neo-corporativism in which the state plays the supporting role of central mediator. This is the view widely held today, accepted even by the World Bank. In its most recent report the World Bank clearly suggests that “the enhanced role of the private sector does not necessarily imply a smaller role for the state. Though greater private sector participation is actively advocated, it does not preclude the active role of the state” (Torres, Mathur 1996: 4). The nature of its role should be changed and become more indirect: more supervisory than interventionist, more incentive-based, than dirigiste.

It is now also a matter of general agreement that such a supportive role by the state might generate positive effects for privatisation, such as: the de-monopolisation of the public sector, the restricted role of state bureaucracy, customer-oriented systems, and cost reduction through competition.

The state might also function as an equalising mediator. Bargaining among private interest groups under the patronage of the state makes negotiating groups more equal. Furthermore, public interest is taken into account to a greater extent (Mansbridge 1992).

Although there is almost a general consensus on the supportive role which the state should play in the privatisation of social services, it is still not clear what the nature of such a neo-corporatist state should be, and what kind of privatisation policy should finally prevail. If we accept that privatisation is a strategy by which some coalitions try to change power relations and establish their own hegemony (Collin 1994), we might suppose that the nature of neo-corporatism would mainly depend on coalitions which existed before or have been formed during the privatisation process.

During the last few years we have had the opportunity to read numerous reports of such coalitions. These describe:

- the vertical coalitions of private - public agencies, formed to aid the development of physical and social infrastructures; they have been brought together with the support of state bureaucrats and play the role of lobby groups and alternative providers of services (Forsyth 1995);
- horizontal coalitions formed by providers of services from different sectors, e.g. housing, health and social care (Smith, Mallison 1997);
- diagonal coalitions among professionals, unions, patients and advocacy groups, which have been spontaneously formed to prevent the destructive effects of privatisation in mental health institutions (Dumont 1996).

The first message in the examples above is that the new, more indirect and supporting role of the state offers a rather broad playground for different coalitions, which might function as formal or informal lobbies and through lobbying become influential policymakers. Second, the neo-corporatist role of the state does not only allow but moreover demands a more pro-active role on the part of agents from civil society. Third, it has become obvious that additional safeguards against the abuse of the aforementioned opportunities should be built in.

Saunders and Harris (1990) believe that at least the following three safeguards should be established:

- a court of law or an ombudsman,
- a professional code of ethics which allows for the self-regulation of providers, and
- democratic accountability.

The most crucial of these three is a professional code of ethics. There is a good deal of empirical evidence indicating that doctors operate more in defence of themselves than as safeguards for those who use their services. One of the main questions therefore is: what tools should be used to increase more customer-oriented social services.

It is not too difficult to answer the question if we look for a solution through power distribution and coalition formation. 'Customerisation' could be increased with the support of the following three coalitions:

1. coalition between providers (managers and professionals) and users,
2. coalition between political circles (governmental or local) and users,
3. coalition between all three stakeholders mentioned above.

Although the last coalition is most preferable, it is the one least likely to be established. Such a coalition would appear in the event of a co-operative polyarchy, which is perhaps a reality only during wartime or some other threat to the existence of all nations. However, some modest approximation of a co-operative polyarchy might also be built using a proper combination of tools, such as: the intensive co-opting of representatives from civil society into government bodies; contractual relations between government bodies and providers of services; the autonomy of professionals (which increases the probability of higher professional ethics and greater responsibility); and non-profit arrangements within organisations which provide social services.

It would be much easier to select the proper tools to encourage the formation of the coalitions mentioned under 1. and 2. Coalitions between providers and users might be encouraged by co-opting users into the management bodies of providers and by the shareholding of both providers and users. Coalitions between political circles and users could be encouraged through the implementation of vouchers and tax deductions, and by allowing taxpayers to choose to whom (part of) their taxes are allocated.

The least desirable, and at the same time the most probable, are the meritocratic coalitions between political circles, professionals and managers (if they exist as a separate group within social services). They are incurred through budgeting and through contracting-out (concessions). These coalitions might, in rare cases, be productive, if they do not retain dominant status and use coercive means. In the event that they retain a monopoly, they should not be destroyed with a kind of populism reminiscent of Jacksonian America or the Chinese Cultural Revolution, but should be countervailed by the implementation of the aforementioned tools.

## **The dilemma of privatisation at the mezzo level: hybrid privatisation and/or quasi markets**

Although we may agree with Jackson and Price that, with the introduction of hybrid forms of privatisation, both state and market have been changed in such a way that the coercive state has been transformed into the "contract state" and the liberal market into a "surrogate market" (Jackson, Price 1994: 23), we should still be aware that the aforementioned changes have only been described in a negative way. Such a negative definition of the market reflects the recent state of affairs and is found in almost all articles dealing with the marketisation of social services. A similar negative definition is also offered by Shera (1996), who suggests that the health care and social service markets

do not function in the same way as the business market, or by Brawn (1995), who concludes that education market is not similar to the traditional private market.

If there is any positive definition of a quasi-market, it is usually identified through contracting-out (concessions). It is known that contracting-out only rarely works as a thoroughly competitive system, due to the existence of hidden monopolies (Bailey 1989), which might be located at suppliers of material resources (natural monopolies) or at suppliers of manpower (professional chambers). Such hidden monopolies are particularly strong in internal quasi-markets, where we usually meet coalitions between politicians and professionals on the one hand and powerless users on the other (Robinson 1994).

External quasi-markets are usually less pre-determined by meritocratic coalitions, especially if purchasing power (vouchers) is in hands of users, and if public tendering is not spoiled by a “distributive coalition” of stakeholders.

There is an increasing amount of empirical evidence suggesting that quasi-markets in the field of social services are shaped by pre-existing coalitions and not vice versa. Evans (1997), for instance, reports that overt and covert “alliances” shape market-based health reform in Canada. He has discovered a rather complex coalition, which includes health care providers, wealthy and healthy users and representatives of the financial-service sector. Taking these findings into account, we cannot expect competition to occur “automatically” with privatisation and marketisation (Shera 1996).

In addition to the sociological explanation of quasi-markets, we should also explore the overall relationship between privatisation, marketisation and the (non) profit status of social services (Klein 1984). Privatisation, marketisation and profit-making are too frequently treated as synonyms, although it is evident that they do not necessarily imply each other (Whitty, Power 1998). There is already some empirical evidence suggesting that there are two quite different private sectors: one with profit and another with non-profit status. Burke and Rafferty (1991) report that ownership matters, but that profit status matters the most. It seems that differences between public and private units are less important than differences between private profit and private non-profit organisations.

If this finding was confirmed through further investigation, we would be able to regulate privatisation in a more acceptable and more efficient way. In this case, the type of privatisation and marketisation would be less relevant than the profit or non-profit arrangements of social services. It seems that all kinds of hybrid privatisation and quasi-market regulation will be decisively modified by status, whether it is profit or non-profit.

We should therefore ask ourselves which type of (quasi) market might be the most appropriate from the point of view of the ‘customerisation’ of social services: profit or non-profit? If we took into account the above statements into account, we would suggest the non-for-profit market as the most appropriate. The main reasons for this are:

- it is socialised, since profit is re-invested in the further improvement of the quality and quantity of services;

- it is, despite non-profit status, still competitive and therefore stimulates efficiency and effectiveness;
- it supports more partnership-like relations between politicians and professionals and in this way ensures their professional autonomy and responsibility;
- and finally, it encourages mutual trust between providers and users.

Of course, the question as to what kind of relations exist among de-segregated property rights, hybrid forms of privatisation and different types of (quasi) markets remains unanswered. However, we are now able to select the most appropriate point of view from which we will attempt to define the most suitable forms of privatisation and the most feasible types of de-segregation of property rights, since we know, which type of quasi-market is the most acceptable to users.

## **The dilemma of privatisation at the micro level: a “voice” for providers or an “exit” for users**

Privatisation processes at the micro level might be studied as a process of the redistribution of power among the main stakeholders. According to Thomas Clark (1994), we might divide all strategies of privatisation into those which promote market groups, those which promote users, and those which promote local communities. Of course, this classification does not indicate what the functionally optimal “division of labour” or distribution of roles and functions should be; it tells us only which group will benefit from a re-distribution of power. From this point of view we could, for instance, expect that political parties of the right would prefer to introduce those methods and tools of privatisation which would increase the power of investors or users of commercial services, and those of the left to encourage the power of providers and citizens as users of non-commercial services.

A more specific theory about re-distribution of power through privatisation has been developed by Saunders and Harris (1990). According to them, there are two types of privatisation processes: the first transfers power and responsibility to providers and investors, and the second to users. Forms of privatisation which transfer power to providers and investors are de-nationalisation and deregulation; forms which transfer power and responsibility to users are commodification and marketisation. The first two change the status of providers by selling the means of production and by introducing competition, while the second two reinforce the status of users by increasing their purchasing power through the introduction of vouchers or similar tools.

Privatisation, which is reduced only to de-nationalisation and deregulation, does not effect the status of users at all. For them it makes no difference whether they are using services from private or public agencies, since their possibility for “exit” (Hirschman 1970) remains the same. However, when state-owned resources are sold directly to users or when users gain purchasing power through vouchers, they become customers just because they received the opportunity to exit.

The next question, an unavoidable one, refers to relationships between customers and citizens. There is a whole set of questions related to the relationship between the voice of citizens and the exit of customers. Is “exit” the only alternative which increases the power of customers? Could “voice” be equivalent to the “exit” of customers?

If we pose the question differently, we might ask: could citizens’ rights replace ‘customerisation’? Finally, we should explore what kinds of relationships prevail between “voice” and “exit”: complementary, exclusive or substitutive? This last question should be expanded to include the providers of social services, whose status has usually been dealt only from the point of view of “voice”, and much less from the point of view of the possibilities for “exit”. If we omit “loyalty” as an obsolete alternative, we might create a comprehensive classification of “voice” and “exit” relations which are presented in the table below:

Target group	Mode of reaction Exit	Mode of reaction Voice
Providers	Free or low segmented labour market	Industrial and economic democracy
Customers	Non-profit arrangements and/or vouchers	Co-optation of users into management bodies

As we can see, both providers and customers have a twin opportunity: they have “exit” if markets for services and labour exist, and “voice” if types of industrial and economic democracy exist. This twin opportunity allows much broader self-regulation and also ongoing self-correction as perceived by now. However, as soon as such a self-corrective activity ceases to exist or is severely restricted, one should expect all kinds of system disturbance.

## Policy implications: hybrid forms of privatisation preferred?

It appears that hybrid forms of privatisation in the field of social services are preferred as a result of the following three reasons:

- they encourage co-operation between the public and private sectors,
- they embrace not only privatisation of assets but also privatisation of activities,
- through de-segregation of property rights they offer almost unlimited forms of privatisation.

As Burchardt (1997) demonstrated through his “wheel of welfare” we might create a great variety of hybrid forms in such a way that we combine public and private financial schemes, public or private provision of services or even combined public and private decision-making systems. Whether these combinations are the main source of manipulation and corruption or they are the best synergetic combination of power sharing and responsibility of these two depends on many other contingencies. Among them it seems that the profit or non-profit status of an organisation is the most relevant contingency.

Empirical studies suggest that the non-profit status of organisations in the field of social services offers the most benign solutions. “Inconclusive” findings gathered until now and concerning equal access to privatised institutions (Plank et al. 1993) would most likely be surpassed if we could establish two additional contingencies:

- (non)profit status of semi-privatised or hybrid organisations and
- Rawlsian type of benign inequality according to which differentiation is acceptable as long as it improves the chances for life of the least privileged groups (Rawls 1971).

Numerous hybrid forms of privatisation have been created in England in the field of medical services. Among those introducing hybrid forms of financial functions are: “Zero Based Budgeting”, “Financial Management Initiative”, and “Hospital Trust”. All of these allow greater financial autonomy of service providers, better use of local resources, more transparent use of financial resources and also the possibility of a more efficient public control. Whether these possibilities are activated certainly does not only depend on newly introduced hybrid forms, but also on other contingencies.

Johnson (1995) reports on the fast spread of “Family Business” in the area of care for the elderly. In this case hybrid forms of financial system are not only limited to activities but also extend to material assets. In most cases families are supported by public guarantees for loans, which are used to build or rebuild houses and other equipment needed for homes for the elderly.

In the field of education, vouchers are more popular as a hybrid form of privatisation. Gormeley (1991) defines this form as a kind of “Limited Privatisation”, which combines vouchers with the positive discrimination against underprivileged schools or groups of users.

In addition to the aforementioned new schemes of hybrid financial systems, we might also introduce a hybrid form of privatisation in production processes and in decision making systems. Apart from the empowerment of users (parents, enterprises etc.) through their membership on school councils or councils of other organisations, it is also possible to co-opt representatives of local communities for these councils (Pampler 1995). If parents, enterprises or representatives from local communities become the majority in these councils the state administration would be transformed into public management. This is perhaps the most preferred system of social regulation in the field of all social services.

A further step might be to move from the partial use of hybrid forms towards the holistic implementation of hybrid forms of privatisation in all systems. Such a holistic form of hybridisation is suggested, for instance, by Reinhart and Jackson (1991). They propose to privatise all public schools and to introduce the voucher system on all educational levels. Similar holistic proposals have also been offered by Eva Orosz (1994). She believes that the most benign reform of the Hungarian health care system would be the stepwise internal privatisation of public hospitals through renting, leasing, and internal buy-outs. To avoid the undesirable outcomes of such internal privatisation the state should maintain control in such a way that all hospitals would hold the status of a non-profit organisation.

In Nordic countries another type of hybrid privatisation is implemented. Here privatisation does not mean solely the transfer of a property right from the state to the individual but also to collectives (whether they are co-operatives or just self-managing teams). Lars Erik Karlsson (1994) reports on municipal worker co-operatives in the field of social or health care activities. Local communities financially support the activities of self-managing teams who care for children, the elderly and individuals with chronic diseases. Karlsson believes that such direct financial support for the self-managing teams is more effective in comparison to the more indirect forms of financial support exercised through contracting out or vouchers.

We believe that further experimentation and empirical research of case studies will offer us new, socially more acceptable and economically more feasible forms of hybrid privatisation.

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