Institutional complexity and sustainable development in the EU electricity sector
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CHAPTER 6
INTERACTIONS BETWEEN STATE, MARKET AND SUSTAINABLE DEVELOPMENT LOGICS: INSTITUTIONAL COMPLEXITY IN AND ACROSS DEREGULATING ORGANIZATIONAL FIELDS

6.1. INTRODUCTION

Since the 1980s, previously nationalized and regulated sectors have undergone a process of progressive deregulation and privatization. In these sectors a state logic has more or less gradually been replaced by a market logic, adopting the so-called ‘price signal’ as sufficient for attaining a balance between supply and demand. Concurrently, in some of these industries, e.g. the electricity sector, the relevance and the number of sustainability concerns and objectives has increased significantly; and sustainable development might thus be seen as an additional logic to which firms’ actions have had to conform (see chapters 2 and 5). This has created debates among researchers and practitioners on whether the market logic would be the most appropriate logic to adopt for tackling these sustainable development issues or whether a return to the state logic in deregulated sectors would be inevitable.

Extant research has given attention to the shift from state- to market-based coordination of a sector and to its impact on firms’ behaviour (e.g. Boscheck, 1994; Delmas et al., 2007; Jennings, 2000; Zahra et al., 2000) and performance (e.g. Cuervo-Cazurra and Villalonga, 2000) (cf. chapter 3). In particular, a set of studies have related deregulation to the adoption of practices consistent with sustainable development objectives, e.g. the investments in renewables by electric utilities (Delmas et al., 2007; Kim, 2013). Scholars have also indicated that the liberalization and deregulation processes are often not very straightforward and have highlighted the heterogeneous implementation of deregulation policies and their retrenchment due to pressures from different actors (Zelner et al., 2009). Yet very limited attention has been assigned to how the emergence or the increase in relevance of sustainable development values and concerns has affected the relationship between the market and the state logic in organizational fields undergoing a deregulation process.

In keeping with the call for ‘problem-driven research’ which “make[s] sense of more or less singular historical occurrences in institutional fields” and “create[s] an understanding of how historical shifts in economy and society have their impact on the ground” (Davis and Marquis, 2005: 340), this chapter examines the dynamics enacted
by the irruption of the sustainable development logic in a deregulating organizational field. The configurations emerging from the identification of these dynamics will provide the basis for a discussion of the interaction between state, market and sustainable development logics in three key contexts. First we will discuss the application of state-market-sustainable development configurations to fields where SOEs (State-Owned Enterprises) operate. Second, we will provide insights on the interaction between market, state and sustainable development logics in a field which is experiencing intra-institutional complexity, due to the compound nature of sustainable development. Third, we will discuss the application of the state-market-sustainable development configurations in the context of the relationship between different organizational fields. In line with the core topic of this dissertation, the European electricity sector is used as illustrative example. It exemplifies ongoing market liberalization and integration guided by governments concurrent with an active role for the EU in sustainability policy making globally.

The remainder of the chapter is structured as follows. The next section establishes the nature of the organizational field and the constructs of institutional logics and institutional complexity. Since this study considers the field as the core locus of the interaction between the state, market and sustainable development logics, it is crucial to illustrate how scholars have conceptualized this construct and how they have related it to institutional logics and institutional complexity. Subsequent sections present, respectively, the shift from the state to the market logic undergone by a number of industries in the last decades more generally (section 6.3), and the electricity sector specifically (6.4). Section 6.5 will illustrate and discuss the different institutional state-market-sustainability logic configurations that may emerge in a field undergoing a liberalization process. The sixth section (6.6) will build on this by applying the state-market-sustainability logic configurations in specific contexts and discussing the theoretical implications and contributions.

6.2. ORGANIZATIONAL FIELDS, INSTITUTIONAL LOGICS AND INSTITUTIONAL COMPLEXITY

The organizational field is a central construct in institutional theory (Scott, 2014) and in the last decades its conceptualization has moved away from a view of stability and homogeneity towards an emphasis on transformation and multiplicity (Wooten and Hoffman, 2008; Van Wijk et al., 2013). Leading scholars have proposed a number of alternative conceptualizations of the organizational field, that broadly fall into two main views, which are explained below. On one side, DiMaggio and Powell (1983) and Scott’s (1995) definitions of fields have emphasized collective rationality and the presence of shared meanings among constituents. In particular, DiMaggio and Powell
stressed both the structure of the organizational field and the interactions between its constituents, by defining an organizational field as “those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar service or products”. Scott (1995: 56), conceptualizing the organizational field as “a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field”, highlighted the presence of shared meanings and therefore institutional and ‘cultural connections’ between the fields’ constituents (cf. Scott, 2014).

On the other side, a number of scholars have noted that organizational fields often encompass contestation and change (Wooten and Hoffman, 2008) and have underlined the need to investigate the heterogeneity and the negotiation processes unfolding from differences in interests. They likewise conceptualized the organizational field as ‘a field of struggles’ (Bourdieu and Wacquant, 1992; Wooten and Hoffman, 2008), an ‘arena of power relations’ (Brint and Karabel, 1991), the ‘center of debates (…) [between] competing interests’ (Hoffman, 1999), and stated that the “appreciation of heterogeneity and the relative incoherence of fields is crucial” (Schneiberg and Clemens, 2006: 210).

While these perspectives on fields have mainly been seen in opposition, Zietsma and Lawrence (2010: 214) argued for a possible reconciliation, stating that fields can be “sequentially and simultaneously a community of shared meaning and an arena of conflict”. This, according to Zietsma and Lawrence (2010: 214), occurs when the boundaries of a field become blurred and fields are likely to undergo “shifts from stability to change and back”. Given these transformations faced by organizational fields, they represent a particularly valuable focus in the study of today’s social and economic changes (Davis and Marquis, 2005; Scott, 2014).

Among the key components of organizational fields identified by Scott (2014), institutional logics are particularly relevant as a lens for investigating complexity within fields. Indeed, extant literature (e.g. Dunn and Jones, 2010; Marquis and Lounsbury, 2007; Reay and Hinings, 2009) has adopted the construct of institutional logics to explore conflicts and change within organizational fields. Thornton and Ocasio (1999: 804), drawing on Friedland and Alford (1991), conceptualized institutional logics as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality”. Thornton et al. (2012) argued that institutional logics are connected to different
societal-level institutional orders, i.e. the state, the market, the professions, the community, the corporation, the family and religion. Each of the orders identified by Thornton et al. (2012) has “its overarching ‘logics’, or ‘master rules’ that prescribe or proscribe social – including organizational – behaviour” (Greenwood et al., 2014: 1214). Institutional logics thus shape the actions of the constituents of an organizational field (Marquis and Lounsbury, 2007), they influence the features organizations focus their attention on and the practices they adopt to tackle them (Sine and David, 2003; Thornton and Ocasio, 1999). Also, importantly, as stated by Thornton et al. (2012: 17), institutional level logics are “subject to field-level change processes that generate distinct instantiations of societal-level institutional logics”. This means that a societal-level institutional order (e.g. the state) can be interpreted and ‘operationalized’ in different ways across fields, depending on the dynamics and interactions between actors at the level of the field.

A key focus of the literature on institutional logics has been the process of ‘replacement’ (Dunn and Jones, 2010) of an existing dominant logic with a new one (e.g. Lounsbury 2002; Thornton, 2002; Thornton and Ocasio, 1999). However, consistent with the view of organizational fields as heterogeneous (Schneiberg and Clemens, 2006), scholars have also shown that “although a new dominant logic may arise as part of a change process, the previously dominant logic will continue to be an important factor in the field” (Reay and Hinings, 2005: 377) or, at least, it will still be adopted by some field constituents. As actors are ‘carriers of logics’ (Almandoz, 2014), a field with diverse actors may lead to multiple institutional logics coexisting and confronting each other over a prolonged period of time, creating a condition of ‘institutional complexity’ (Greenwood et al., 2010). In addition, the relative degree of relevance of each institutional logic in a field is not permanent, but changes, making institutional complexity “unfold, unravel and re-form[…]” (Greenwood et al., 2011: 319). This may mean that a once dominant logic, which had been relegated to a marginal position, may be adopted by certain actors and regain strength, due to the occurrence of ‘field-configuring events’ (Hardy and Maguire, 2010).

Recent research on institutional complexity has emphasized the coexistence of multiple institutional logics within organizational fields (e.g. Dunn and Jones, 2010; Greenwood et al., 2010; Marquis and Lounsbury, 2007; Purdy and Gray, 2009; Reay and Hinings, 2005, 2009) and the interaction and mutual influence between institutional logics (e.g. D’Aunno et al., 1991; Greenwood et al., 2010; Reay and Hinings, 2005). The literature has identified two types of institutional complexity, i.e. inter-institutional complexity and intra-institutional complexity (Meyer and Hollerer, 2014). Inter-institutional complexity designates the ‘complexity, contradictions and complementarities’ (Meyer and Hollerer, 2014) deriving from the coexistence of logics
which belong to different ‘societal level institutional orders’ (Greenwood et al., 2014), e.g. market and profession. Intra-institutional complexity instead arises from the concurrent presence of heterogeneous logics within the same societal level institution, e.g. the coexistence of and conflict between two professional logics.

Despite the increasing interest in these two forms of complexity, the focus has mainly been on the relationship between two institutional logics belonging to different (e.g. Reay and Hinings, 2005) or the same (e.g. Falcounbridge and Muzio, 2016) societal level institutions, with scant attention paid to complexity arising from the intervention of a third logic (Greenwood et al., 2011). Yet, to diminish the risk that “the extent of complexity experienced [is] underestimated or misinterpreted” (Greenwood et al., 2011: 332), the integration of more than two logics is particularly needed (cf. Greenwood et al., 2010; Lee and Lounsbury, 2015). In addition, extant studies adopting the construct of institutional logics have largely analysed ‘the diffusion of the market logic’ (Scott, 2014) in different contexts, from the publishing industry (Thornton and Ocasio, 1999), to orchestras (Glynn and Lounsbury, 2005), and health care (Reay and Hinings, 2005). As argued by Greenwood et al. (2010: 521), however, this left nonmarket institutions and logics as an underexplored topic that deserves greater research attention.

The relevance of a more comprehensive exploration of institutional complexity is also justified by the fact that, as illustrated in detail in the next sections, often the shift to a market logic is not permanent or completed and the persistence of other logics, in particular those of the state, can play a crucial role in a field.

### 6.3. DEREGULATION AND PRIVATIZATION: FROM THE STATE TO THE MARKET LOGIC

Among the institutional orders identified by Thornton et al. (2012), the relationship between the market and the state is particularly relevant, as it “has profoundly shaped the course of modern history” (Gilpin, 1987: 11). Lee and Lounsbury (2015: 852) posited that “the central logic of the state has to do with the regulation of individual and organizational activities using a command-and-control framework based on law and bureaucratic hierarchy”. However, in keeping with Ring et al. (2005), we argue that not only command-and-control, i.e. the ‘regulation’ of economic activity, is inherent in the state logic, but that the state can also play a ‘fostering’ role, i.e. through ‘support mechanisms’ targeting specific practices (Wood and Wright, 2015). We posit that the state logic implies the legitimation of government intervention to regulate and/or to promote specific economic activities, by drawing on the literature on the debate “between the free market and government interventionism” (e.g. Mahmood and Rufin, 2005: 338) as the drivers of economic growth. As illustrated in section 6.2, the
state logic may be instantiated differently across fields: while in one field a command-and-control approach may prevail, in another field the state logic may reveal itself mainly in the adoption of a fostering role. The market logic, instead, is “underpinned by the ideology of neoliberalism” (Lee and Lounsbury, 2015: 854) and relies on price signals. As stated by Gilpin (1987: 11), “for the market, the elimination of all political and other obstacles to the operation of the price mechanism is imperative”.

Until the 1980s, state ownership and economic regulation was the norm for a set of sectors, such as gas, electricity, water, and railways. The main reasons were the existence of a natural monopoly (Sine and David, 2003) and the attainment of ‘distributional objectives’ (Henisz and Zelner, 2005), efficiency and cost reduction (Delmas and Tokat, 2005). The 1970 and 1980s were featured by a crisis of the state-dominated coordination of these sectors, paving the way for its replacement with the market logic (Zelner et al., 2009), the so-called ‘marketization’ process (Davis and Marquis, 2005; Wood and Wright, 2015). A key driver was the ‘global’ diffusion of neoliberal views, which led governments to increasingly adopt “reforms that celebrated market mechanisms and challenged the efficacy of government action’ (Lee and Strang, 2006: 891)” (Zelner et al., 2009: 382). The inefficiencies and failures of the nationalized and regulated firms (Sine and Lee, 2003; Henisz and Zelner, 2005), that came to light in the same years, fostered the belief in and the adoption of a shift to market-based coordination.

While this process could seem similar to the ones studied by extant literature and consisting of the replacement of an existing dominant logic with a new one, three main features make it considerably more complex from an institutional logics’ perspective. First, the shift from the state to the market logic has been uneven across organizational fields. While in some organizational fields the neoliberal prescriptions have been fully and rapidly embraced, in others the shift from the state to the market logic has been more limited or gradual (Bohne, 2011; Eurostat, 2012; Zelner et al., 2009).

Second, as illustrated by extant literature, the relationship between market and state is dynamic. This means that “economies experience epochs of greater state involvement interposed with epochs of market dominance” (Wood and Wright, 2015: 271), in keeping with a view of fields as encompassing both shared meanings and conflicts (Zietsma and Lawrence, 2010). A shift from the state to the market logic is thus not always permanent and a ‘countermovement’ (Wood and Wright, 2015) is likely to emerge (e.g. Zelner et al., 2009). This evolving interaction also results in heterogeneous combinations of state and market logics, e.g. the government’s
adoption of mechanisms that, through price signals, incentivize a certain type of investments.

Third, the establishment of the Brundtland commission in 1983 raised substantial interest around sustainable development and the values and beliefs related to it, which since then have gained global prominence. As discussed in more detail in chapter 5, this drove the emergence of a third logic, i.e. the sustainable development logic, in the organizational fields where the shift from the state to the market logic was undertaken, and it represented an additional source of institutional influence on field constituents.

In the next sections we will discuss how the emergence of the sustainable development logic may impact the shift from the state to the market logic. This, as explained in the following paragraphs, will be done using the EU electricity sector as an illustration. Such an adoption of an illustrative empirical example(s) to support the development of new theory is accepted in the literature as a mechanism for explaining the central conceptual arguments, as seen in Henisz and Zelner (2005), Lawton et al. (2009) and Sethi and Judge (2009).

6.4. THE ELECTRICITY SECTOR AS ILLUSTRATIVE CONTEXT

The electricity sector, as argued by Sine and David (2003: 188), is particularly suitable to the “study of institutional conflict and change because the nature of the structures, practices, and exchange relationships in the industry [...] remained stable and taken for granted” for decades, until the transformation started in the 1980s. Until the 1980s, the electricity sector was subject to strong regulatory control, with a “conventional market failure justification” (Boscheck, 1994: 112), reflecting the considerable and risky long-term investments needed to ensure electricity supply. Electric utilities were state-owned and national (e.g. in France) or subnational regional (e.g. in Germany) monopolies.

In the last 30 years, due to a number of factors, e.g. the 1973 oil crisis (Sine and David, 2003), the inefficiencies of government ownership and/or the natural monopoly system (Hafsi and Tian, 2005; Henisz and Zelner, 2005; Sine and David, 2003), “governmental budget constraints” (Boscheck, 1994: 112), “innovations [...] in the transmission of electrical power” (Delmas and Tokat, 2005: 443) and/or the Washington Consensus (Zelner et al., 2009), many national governments around the world have started a process of deregulation and privatization of their electricity sector.

More specifically in Europe, within the framework of the global wave of neoliberal reforms (Zelner et al., 2009), regulators came to believe that “it is not only possible to
introduce market economy structures in the energy sector but that such structures are even superior” (E.ON, 2003). A liberalization and privatization process was thus initiated, in particular imposed by EU regulators through three liberalization directives in 1996, 2003 and 2009 (Eurostat, 2012), with support from some national leaders, e.g. Margaret Thatcher.

Deregulation has been ‘metamorphosing’ (Delmas et al., 2007) the electricity field, through the diffusion of norms and beliefs consistent with a market logic (e.g. Hafsi and Tian, 2005; Tsoukas and Papoulias, 2005) and through a change in the field’s structure and in the position of the field constituents. Management scholars (e.g. Delmas et al., 2007; Kim, 2013; Zelner et al., 2009) have provided insights on this ‘metamorphosis’ of the electricity sector, but the focus of their studies has mainly been on the US experience (see chapter 3).

Extant research on the US electricity sector has shown that deregulation had different effects on incumbents, i.e. firms already operating in the field, in many cases by “control[ing] both the generation and distribution of electricity within regional geographic monopolies (Hirsch, 1999)” (Sine et al., 2007: 583). For example, deregulation had an impact on US electric incumbents’ behaviour in terms of environmental differentiation (Delmas et al., 2007; Kim, 2013), make or buy decisions (Fabrizio, 2012), productive efficiency and governance structures (Delmas and Tokat, 2005).

Literature also shows that in the US deregulation has driven the rise of new actors, e.g. independent power producers. In particular a new regulation, PURPA, within the framework of the sector’s deregulation, “created a new set of opportunities for entrepreneurs to found firms that generated electricity and sold that electricity to established utilities for distribution (Sine and David, 2003)” (Sine et al., 2007: 584). US policy makers considered such a rise of new entrants in the electricity field “as essential to the transition to a deregulated future” (Russo, 2001: 61). The transformation of the field’s structure has however been a challenge. Indeed, as illustrated by Sine et al. (2007), after the deregulation of the US electricity sector, the emerging independent power sector was initially “viewed with much skepticism” (Sine et al., 2007) by prominent actors in the field.

While management scholars have provided insights on the transformation of the sector in the US, deregulation in other regions, such as Europe, has received limited attention. Yet, the EU electricity sector is particularly interesting because, as argued by the major German and European electric utility E.ON, “the liberalization of the European energy markets marked a major turning point that led to radical change” (E.ON, 2003). Also, differently from the US, which has arguably seen the greatest shift
from a state to a market logic, the deregulation of the EU electricity sector has been unevenly adopted across EU member states (Eurostat, 2012), thus featuring significant diversity in the degree of state and market logic dominance configurations.

The complexity of the EU deregulation process has also been due to the increasing role played by sustainable development concerns in the electricity field. Until the 1990s, sustainable development issues related to electricity were either addressed nationally, without too much debate, as in the case of security of supply and affordability, through state-ownership and monopoly (E.ON, 2003), or had received limited or questioned resonance, as in the case of climate protection (Kolk and Hoffmann, 2007). Sustainability debates were limited to specific locations, e.g. to Germany as in the case of nuclear energy, and to specific time periods, e.g. after a price increase or a disruption.

With the growing global concerns and interests in climate change, in particular in the last two decades (Kolk and Hoffmann, 2007), and in combination with liberalization and privatization, the sustainable development issues of energy security, affordability and environmental protection became the subject of EU-wide discussions and confrontation. Given the ongoing shift from the state- to the market-based coordination of the sector, debates started around issues like “the role of energy and environmental policy in competitive markets” (E.ON, 2004a).

In the next sections we will use the electricity sector to illustrate first in the identification of different configurations of state, market and sustainable development logics and then in the discussion of theoretical perspectives related to the application of the configurations to different institutional contexts. As the governments and business actors play a fundamental role in every deregulation process, the discussion in the next sections will be focused on these field constituents.

### 6.5. STATE-MARKET-SUSTAINABLE DEVELOPMENT LOGIC CONFIGURATIONS IN AN ORGANIZATIONAL FIELD

Drawing on the electricity sector as illustrative example and based on the underexplored areas of the literature on institutional logics, we posit the importance of exploring how the ‘irruption’ of a sustainable development logic in an organizational field affects the ongoing shift from the state to the market logic and how the field’s constituents may respond to this institutional complexity.

Table 6.1 illustrates different ‘state-market-sustainable development logic configurations’, i.e. different ways in which field members may address the emergence of a sustainable development logic in a field undergoing a shift from the state to the market logic. When a sustainable development logic emerges within a field, the
existing logic(s) in the field can be interpreted by field members as being complementary or conflicting with the new logic. Hence, in fields with (varying) degrees of market and state logics, these logics can be combined in four different ways in response to the irruption of a sustainable development logic, suggesting different ‘accommodations’ of this logic.

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<td>Complementary with sustainable development logic</td>
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| A.                  | **Business:** Institutional agency in support of (limited) government intervention to enable markets  
                     **Government:** Design of market-based mechanisms; information and communication initiatives to institutionalize the integration of market and state logic |
| B.                  | **Business:** Partnerships with NGOs; sustainable business practices/processes; institutional agency to deinstitutionalize government intervention  
                     **Government:** No regulatory intervention; information and communication initiatives to institutionalize the market logic and deinstitutionalize government intervention |
| C.                  | **Business:** Institutional agency to institutionalize direct government support for sustainable practices and/or strict government regulations against unsustainable practices  
                     **Government:** Design of incentives and subsidies supporting sustainable practices; formulation of regulatory measures imposing sustainable practices; information and communication initiatives to institutionalize government intervention |
| D.                  | **Business:** Institutional agency to deinstitutionalize government intervention  
                     **Government:** No intervention |

Table 6.1: State-market-sustainable development logic configurations
Our approach acknowledges that stances in favour of a ‘pure’ market or state logic are less common than those supporting more ‘hybrid’ solutions. Indeed, as argued by Wood and Wright (2015: 273), “many firms and other actors operate in a domain that is neither entirely state nor market and is subject to forces from both domains (Schwartz, 2010)”. We thus include in Quadrant B and C the situations in which actors support a solution highly reliant on the market with a minimal government role (Quadrant B) or highly reliant on government intervention, which distorts the market dynamics (Quadrant C).

**Quadrant A**

In Quadrant A, field members support or accept that the sustainable development objectives are attained through the integration of the market and the state logic.

This position is epitomized by EU electric firms’ promotion or acknowledgment of the need for a stronger role played by government in the sector to ensure environmental sustainability. As argued by E.ON, when confirming the environmental impact of electricity generation and consumption: “that’s why we accept that the government has a special role to play in the design of the energy supply industry” (E.ON, 2004a). However, government intervention is considered most appropriate when limited to the development of ‘schemes’ that through price signals lead firms to choose sustainable practices. Government’s selection of specific practices through targeted subsidies is excluded. The European electricity industry association’s (Eurelectric) support for a EU-wide emission trading mechanism (EU ETS), whose “purpose [...] is to send a carbon price signal that will encourage take-up of new low-carbon technologies” (Eurelectric, 2008), is an example. According to Eurelectric (2008), creating “a robust emissions trading mechanism” was “the best way to ensure secure energy supply [...] and achieve progress towards a low-carbon mix”.

Similarly, the European Commission has engaged in communication initiatives to defend the choice of the EU ETS over ‘command and control measures’, i.e. direct government intervention to reduce CO$_2$ emissions. As posited in the EU ETS Factsheet released by the European Commission (2013a):

“Emissions trading systems are among the most cost-effective tools for cutting greenhouse gas emissions. [...] In contrast to traditional ‘command and control’ regulation, emissions trading harnesses market forces to find the cheapest ways of reducing emissions. [...] By putting a price on carbon and thereby giving a financial value to each tonne of emissions saved, the EU ETS has placed climate change on the agenda of company boards across Europe [...] By allowing companies to buy credits from emission-saving projects around the world, the EU ETS also acts as a major driver
of investment in clean technologies and low-carbon solutions, particularly in developing countries.”

Quadrant B

In quadrant B, field constituents argue that the sustainable development logic is or has to be fully compatible with the market logic and thus the state logic should not be adopted to attain sustainable development objectives.

In particular, field actors associate government intervention for sustainable development objectives with a return to a state-dominated coordination of the sector. Referring to the potential creation of a CO₂ emission trading scheme and to the subsidies for renewables, E.ON’s CEO accused German regulators in 2003 of still making “recourse to the ancient tools of central planning” (E.ON, 2003) and, significantly, of “trying to create an ecologically-oriented centrally planned energy sector” (E.ON, 2003). Instead, he strongly upheld the need to defend competition and to rely on the market to pursue sustainable development objectives. In particular, with regards to affordability, E.ON CEO stressed that “in the European countries that have liberalized their markets, energy prices have fallen considerably” (E.ON, 2003). Concerning climate change, he similarly defended a ‘market economy environment’ and a ‘competition-oriented energy policy’, positing that “the government must define the general setting within which all energy sources can compete with each other and the most efficient solutions can be found in the interest of environmental protection” (E.ON, 2003).

This behaviour can be observed in the UK government’s position on energy affordability. As argued in 2015 by Edward Davey, Secretary of State for Energy and Climate Change, “should the regulator or the government intervene on prices? Here I say absolutely no, with one caveat, the markets have to be competitive” (Policy Exchange, 2015). In the same year, this was also seen in the major UK electric utilities’ strong reaction against a proposal by the candidate for the Labour Party, Ed Miliband, to freeze electricity prices if he won the national elections.

For the actors in this quadrant, the ‘price signal’ is sufficient to ensure the attainment of sustainable development goals and the government’s role has to be minimal, limited to the creation of a framework that ensures competition.

Quadrant C

In quadrant C, field actors argue that the sustainable development logic is incompatible with the market logic and thus that sustainable development objectives can only be attained through the adoption of the state logic.
The field constituents argue that the shift from a state-dominated to a market-based coordination should allow an exemption for the attainment of a specific sustainable development objective. An example is the German electric utilities’ request to the German government to establish capacity mechanisms\(^4\) in order to ensure security of supply, i.e. economic sustainability objectives. In particular, E.ON argued that the capacity mechanisms were needed in the medium term, because “conventional power plants will stay for a long time [and] supply security needs a fair market and a fair price” (Appunn et al., 2015).

Another example is the UK government’s decision to financially support nuclear energy in 2015, in contrast with the previous government’s stance on this issue (see chapter 4). This was explicitly acknowledged within the UK government’s communication of the deal between a French nuclear energy firm (EDF) and a Chinese one (China General Nuclear Corporation) to build a new nuclear plant and of the agreement on the government’s support for this project. After having stressed that the nuclear plant would contribute to providing “the clean, affordable and secure energy that hardworking families and businesses across the country can rely on now and in the future”, it declared: “nuclear power will bring energy and financial benefits to the UK. The Government confirms that it is not continuing the ‘no public subsidy policy’ of the previous administration” (Gov.uk, 2015b).

**Quadrant D**

In quadrant D, the field constituents argue that the sustainable development logic is incompatible with both the state logic and the market logic. Government intervention to support sustainable practices is seen as an undue distortion of the market. At the same time, the most sustainable practices are argued to be incompatible with market mechanisms, for example due to their high costs which make their adoption unprofitable.

This state-market-sustainable development configuration could result in two different positions. The first one opposes the adoption of the sustainable development logic \textit{tout court}. However, currently this type of position does not emerge in the discourses taking place in the electricity field. This is because there is now a general consensus on the need to make electricity generation and supply more sustainable. The debate is thus over paths and mechanisms, typically market- and/or state-driven, to adopt for a more sustainable energy future and not about whether this should take place. The

\(^4\) Capacity mechanisms are financial incentives granted to operators of conventional (i.e. gas, coal, nuclear) plants. They consist in “providing a payment for reliable sources of capacity, alongside their electricity revenues, to ensure they deliver energy when needed” (Gov.uk, 2015a).
second position instead excludes the attainment of sustainable development objectives through the state or the market logic, instead favouring another institutional logic, for example the community logic. This is exemplified in the electricity field by the development of local cooperative solutions to electricity production and distribution.

6.6. THEORETICAL PERSPECTIVES ON STATE-MARKET-SUSTAINABLE DEVELOPMENT CONFIGURATIONS

The different configurations of the state-market-sustainable development logic interactions identified in the previous section aim to provide a starting point for advancing the understanding of the impact of sustainable development norms and values on deregulation. We posit that this framework could be applied in particular to the study of three key institutional contexts: (1) organizational fields in which SOEs operate, (2) organizational fields where intra-institutional complexity related to sustainable development unfolds and (3) organizational fields connected with or nested within other fields.

6.6.1. SOEs, deregulation and sustainable development

As illustrated in the previous sections, the 1980s marked the beginning of a privatization process in a large number of countries and sectors. However, full privatization has not always been attained, despite the push towards market-based coordination, largely because some governments still considered specific industries to be ‘nationally strategic’ (Musacchio et al., 2015) and decided to retain a certain degree of ownership and/or control of their key constituents (Bortolotti and Faccio, 2009; Cuervo-Cazurra et al., 2014). As argued by Musacchio et al. (2015: 115), thus “governments ended up as minority or majority shareholders, or as strategic partners, in a variety of firms across multiple industries”.

While until recently management scholars adopted a rather drastic approach to state ownership, arguing that “firms are SOEs or they are not” (Bruton et al., 2015: 95), in the last few years a more nuanced perspective emerged, viewing “SOEs as hybrid organizations that consist of different mixtures of private ownership and control by the state” (Bruton et al., 2015: 97). This ‘inclusive’ conceptualization of SOEs finds a stronger match in particular with the reality of EU SOEs, which in many cases are ‘hybrid’ organizations, i.e. they incorporate “both state and private ownership” (Bruton et al., 2015: 97) and/or have undergone changes over time in order to fit into market economies (Cuervo-Cazurra et al., 2014).

The typologies developed by researchers (e.g. Bruton et al., 2015; Cuervo-Cazurra et al., 2014; Musacchio et al., 2015) to capture the different features of contemporary
SOEs signal the variety of market and state logic combinations these enterprises can incorporate. An example, as also indicated in chapter 4, is the EU electricity sector that encompasses, among its major constituents, wholly state-owned companies like Vattenfall and firms with heterogeneous degrees of state-ownership and control like EDF, ENGIE and ENEL (Bruton et al., 2015; Musacchio et al., 2015). These SOEs have had to adapt their organizational form to national organizational fields experiencing a rise in competition and the entry of new and/or foreign privately owned investors as a result of deregulation policies.

But these SOEs have also been operating in deregulating fields which faced the irruption of sustainable development norms and values. However, as far as known, the study of this phenomenon has not taken up by scholars thus far. We argue instead that the adoption of the framework illustrated in section 6.5 would allow the exploration of the implications of SOEs’ presence for the way sustainable development is addressed in a deregulating field. We consider it particularly significant to explore whether and how the hybrid nature of contemporary SOEs affects the market-state-sustainable development logic configuration these organizations adopt in a deregulating field. Also, since in some deregulating fields SOEs have retained a considerable market share (e.g. EDF in France), it would be interesting to explore whether and how the presence of SOEs in a field affects the market-state-sustainable development logic configuration that becomes dominant in that field. This is in line with research investigating the role of different types of constituents in ‘fieldwide change’ (Maguire and Hardy, 2009).

In addition, in keeping with the renewed scholarly interest in state-owned multinationals (e.g. Choudhury and Khanna, 2014; Cuervo-Cazurra et al., 2014; Duanmu, 2014; He et al., 2016; Liang et al., 2015, using abbreviations as SMNEs or SOMNEs) and with the international expansion of electric utility SOEs, like Vattenfall, EDF, GDF and ENEL, a study of how state-owned multinationals affect the market-state-sustainable development logic configuration in the host countries they operate in would be a promising research avenue.

6.6.2. Intra-institutional complexity of sustainable development in deregulating fields

As illustrated in chapter 5, sustainable development encompasses a set of different, in some cases conflicting, beliefs or sub-logics, i.e. environmental, social and/or economic sustainability. This intra-institutional complexity characterizing the sustainable development logic is often combined with the inter-institutional complexity described in section 6.5. Different state-market-sustainable development logics configurations may thus prevail for different sustainable development sub-logics. Indeed, it is likely
that the constituents of a deregulating field consider one sustainable development sub-logic as more complementary with the state logic, while another is perceived as more complementary with the market logic.

The combination of inter- and intra-institutional complexity is epitomized by the statement on the electricity sector by the UK Secretary of State for Energy and Climate Change Howard Davey in 2015:

“on decarbonisation, yes, there’s a case for intervention, I believe it’s transitional over a 10-plus period as we move this historic, in human history, historic change but we do need that intervention. On electricity security I think, yes, there is a case for state intervention, but again, it should be transitional and in terms of prices I see no case for intervening other than promoting competition”.

Policy Exchange (2015)

Hence, according to Davey, in the UK, the environmental and the economic sustainability sub-logics, aimed at ensuring respectively climate protection and security of supply, were more compatible with the state logic, while he supported the stronger association of the social sustainability sub-logic, representing energy affordability concerns, with the market logic.

In keeping with the call for problem-driven research (Davis and Marquis, 2005), we posit that the concurrent presence of intra- and inter-institutional complexity in deregulating fields dealing with sustainable development (see Figure 6.1), would deserve research in two main directions: firstly, on the emergence and coexistence of multiple state-market-sustainable development logic configurations and, secondly, on the interaction between these configurations and field (re-)structuration. Both will be briefly explained below.
In deregulating fields, different sustainable development-related concerns may arise or intensify in given periods, often following disruptive events. For example, in the electricity sector concerns regarding climate change increased after the Kyoto Protocol and electricity blackouts exacerbated worries regarding security of supply. Government and business actors may associate these different sustainable development sub-logics with heterogeneous market-state logic combinations, leading to the coexistence of multiple state-market-sustainable development configurations. We thus consider it particularly relevant to study the mechanisms driving heterogeneous and possibly conflicting market-state-sustainable development logic configurations for different sustainable development sub-beliefs in a field. This would allow insights on the emergence and coexistence, in the same field, of different types of ‘collective rationality’ (DiMaggio and Powell, 1983; Scott, 2014) in relation to different sustainable development sub-logics to be developed. For example it would advance knowledge on the mechanisms leading to concurrently addressing economic
This research would provide a contribution not only to the study of the impact of sustainable development on deregulating fields but also in two other areas of investigation. First, it would contribute to the growing research on ‘tensions’ in sustainable development (e.g. Hahn et al., 2010; Hahn et al., 2015; Scherer et al., 2013; van der Byl and Slawinski, 2015). While these studies focus mainly on the organizational level, the research we suggest is in line with the call for having ‘fields as unit of analysis’, which is “especially appropriate during unsetted times such as today, when new industry segments proliferate and when the boundaries around existing industries can shift from permeable to nonexistent” (Davis and Marquis, 2005: 337).

Second, researching intra-institutional complexity (i.e. the concurrent presence of heterogeneous sustainable development sub-logics) and inter-institutional complexity (i.e. market-state-sustainable development logics configurations) in deregulating fields contributes to the institutional complexity literature. Indeed, scholars have focused on examining either inter- or intra-institutional complexity, and scant attention has been given to the presence of both within the same field and the resulting mechanisms that emerge. Considering both inter- and intra-institutional complexity allows the risk of underestimation and misinterpretation illustrated previously to be addressed.

**State-market-sustainable development configurations and field (re-)structuration**

Scholars highlighting the importance of fields as unit of analysis (e.g. Scott, 2014; Sauder, 2008; Davis and Marquis, 2005) stress the need to examine not only the ongoing institutional changes in a field but also its ‘structuration’ and ‘destructuration’ (Scott, 2014). Significantly, Scott (2014: 243) argued that he could “think of no better single indicator for assessing change in an organizational field than tracking changes in the number and types of organizations that operate within its boundaries”. The examination of the ‘composition’ or ‘structure’ of a field (Davis and Marquis, 2005) is particularly crucial in the study of fields undergoing a deregulation process, as the key aim of deregulation is to foster the entry of new organizations and organizational forms. As mentioned previously, the attention assigned by the literature on the deregulation of the electricity sector (cf. chapter 3) to new entrants, e.g. independent power producers (e.g. Sine and David, 2003; Pacheco et al., 2014; Sine et al., 2005; Sine et al., 2007) or foreign investors (Zelner et al., 2009), confirms the relevance of field (re-)structuration.

A very limited set of studies (e.g. Hoffmann, 1999) has explored the relationship between institutions and field structure. As in the case of Hoffman (1999), the focus has been on institutional change, thus on the replacement of one institution with a
new one, and not on institutional complexity. In addition, he conceptualized the industry as a homogeneous constituent of a field, without paying attention to the changes undergone by industries (cf. Davis and Marquis, 2005) and the emergence of new ‘organizational archetypes’ (Scott, 2014; Greenwood et al. 2014) and relationships within and/or between them.

We posit instead that the study of the coevolution and the interaction between institutional complexity, in terms of state-market-sustainable development configurations, and field (re-)structuration would be particularly valuable. This focus would allow, for example, the exploration of whether the dominance of the state or the market logic to attain social, economic or environmental sustainability objectives fostered or hindered the emergence of new organizational forms and the position of the incumbents. Conversely it would also allow the examination of whether the entry of new actors in a deregulating field drove an increase in the adoption of the state or of the market logic to addressing social, economic or environmental sustainability issues.

6.6.3. State-market-sustainable development logic configurations across organizational fields

The literature examining institutional complexity in organizational fields has almost exclusively focused on one field, thus overlooking the presence of institutional complexity across fields positioned at the same (e.g. country-level) or at different levels (e.g. country- and supranational-level). Yet this ‘multinational’ and ‘multilevel’ (Ring et al., 2005) institutional complexity, which we call ‘cross-institutional complexity’, has played a key role in the ongoing deregulation processes in the EU in recent decades. An example of this is the case of electricity: while on one side there has been a push for the creation of a single European electricity market, on the other side regulators at the country-level have maintained and defended a national ‘approach’ to liberalization and privatisation. This outcome has simultaneously been featured by heterogeneous degrees and types of government support for renewables in relation to environmental sustainability objectives. Misalignments have also emerged between members states and EU regulators regarding the acceptable degrees of state intervention for addressing economic sustainability.

The fragmentation of the institutional environment in which they operate is a crucial issue for all firms and in particular for MNEs, due to their presence in multiple countries. Facing multiple misaligned organizational fields can represent both a challenge and an opportunity for firms as it may engender legitimacy challenges (cf. Scherer et al., 2013), but it can also create the opportunity for ‘institutional arbitrage’ (Jackson and Deeg, 2008). We argue that exploring cross-institutional complexity
through the lens of the state-market-sustainable development logics configurations, developed in section 6.5 (see Figure 6.2), would contribute to identifying the dynamics emerging from the institutional misalignments between deregulating fields and to exploring the different actions adopted by firms to address them. Below we will discuss in some more detail both multilevel and multinational institutional complexity across organizational fields.

**Figure 6.2: State-market-sustainable development logic configurations across organizational fields**

**Multilevel institutional complexity: national vs. supranational fields**

Ring et al. (2005) have stressed the importance of the issue of ‘fragmentation’ of governance in organizational fields for the study of governments’ impact on firms. Fragmented institutional environments are defined as those where “governments are organized as relatively weak federal systems that promote decentralized decision making” (Ring et al., 2005: 313).

Firms operating in this kind of environment are affected significantly, as they are more likely to face dissimilar and, in some cases, contradictory rules and lack of agreement...
between ‘levels of government’ (Ring et al., 2005). Although the EU is not, at least for the moment, a ‘federal system’, there is unequivocally a strong and mutual influence between EU and national organizational fields. If on one side, decisions taken at EU level are binding for member states (European Union, n.d.), on the other side, the member states can (attempt to) influence which institutions will prevail at the EU level (e.g. Panke, 2012).

The history of the deregulation of the EU electricity sector highlights the dominance, in the EU organizational field, of the market logic over the state logic to address sustainable development objectives. As mentioned previously, over the last thirty years, EU regulators adopted three directives with the aim of deregulating nationalized and regulated electricity sectors in the member states. The risk of a misalignment between the state-market-sustainable development configuration prevailing at the supranational level and those supported at national level is signalled by the 2014 release of the ‘Guidelines about State Aid for Environmental Protection and Energy 2014-2020’ and the 2015 launch of the ‘State Aid Sector Inquiry into National Capacity Mechanisms’ by the European Commission. These initiatives show the European Commission’s acknowledgment that at the national level a movement in favour of government intervention for environmental and economic sustainability objectives could emerge. They also signal its intention to prevent the dominance of the state logic in fulfilling sustainable development, as according to the European Commission it would distort competition and jeopardize the liberalization of the electricity sector.

Drawing on the case of the electricity sector, we argue for the need to explore the mechanisms through which the misalignment between supranational and national fields is addressed and the process(es) leading national and supranational organizational fields to converge or diverge on specific state-market-sustainable development logic configurations.

The institutional dynamics in the European electricity field also signal firms’ role in the conflict between national and supranational state-market-sustainable development logic configurations. A key example is E.ON’s request to the German government to intervene in the electricity field, through capacity mechanisms, to defend economic sustainability objectives. E.ON’s adoption of the state logic at the national level conflicted with the configuration that was dominant at the supranational level, where the European Commission (2013b) expressed its preference for other measures, “less distortionary and easier to implement than market wide capacity mechanisms”. In the German field E.ON thus promoted the adoption of a state-market-sustainable development configuration that would diverge from the one dominant at the EU field level.
The example of E.ON shows that firms undergoing a deregulation process may play a key role in the (mis-)alignment between the state-market-sustainable development logic configurations prevailing at national and supranational levels, by working in favour or against a convergence. We thus posit that research on multilevel institutional complexity affecting deregulating fields should adopt the state-market-sustainable development configurations presented in section 6.5, to explore the mechanisms firms adopt to address the (mis-)alignment between the institutional logics’ combinations prevailing at national and supranational levels.

Multinational institutional complexity: national vs. national fields

As indicated in chapter 4, scholars have signalled, through the development of a number of taxonomies (e.g. Hall and Soskice, 2001), the heterogeneity in the fundamental balance between state and market logics across countries. For example, with regards to the EU electricity sector, differences in the liberalization process across countries have been identified (Eurostat, 2012), showing a variation in the perception of the role of the state and of the market between EU member states. With the increase in the urgency of sustainable development concerns, a misalignment in the dominant state-market-sustainable development configuration may emerge across national fields. While one country adopts a market-based solution to address a sustainable development issue, another country may not consider it sufficient and instead prefer government intervention.

Heterogeneous institutional complexity across countries is particularly relevant for MNEs, since they are present in multiple countries, and, as mentioned previously, this can represent both a challenge and an opportunity for MNEs. On the one hand, MNEs having to respond ‘simultaneously’ to fragmented and conflicting institutional demands across home and host country fields face significant legitimacy challenges (e.g. Scherer et al., 2013). On the other hand, MNEs may exploit institutional misalignments between countries through ‘institutional arbitrage’ (Jackson and Deeg, 2008). The emergence of a misalignment may at the same time represent a potential source of leverage for a convergence of home and host countries on a more convenient state-market-sustainable development configuration for the MNE, in keeping with a view of fields as “shift[ing] from stability to change and back” (Zietsma and Lawrence, 2010: 214).

An example is the misalignment that emerged between the German and UK organizational fields with respect to the state-market-sustainable development configuration for attaining economic sustainability objectives. Until 2013, in both the UK and Germany the dominant configuration with regards to economic sustainability was the market logic, but with the approval of the Energy Act in 2013 the UK
introduced the capacity mechanism (Gov.uk, 2013), which epitomizes the use of the state logic to address economic sustainability concerns (see section 6.6.3). E.ON, operating in both the UK and in Germany and supporting the adoption of the state logic, used what had occurred in the UK to also argue for the adoption of the state logic for economic sustainability in Germany. Significantly, during an intervention at the Eurelectric conference in 2015, addressing the German field, the CEO of E.ON stated that “the question is should we heal the [economic sustainability] problem while it’s still cheap, like the British did, or do you run it down the drain and when it’s almost broken then you interfere” (Steitz and De Clerq, 2015).

Drawing on the example of E.ON we argue that research is needed on whether and how MNEs, operating in multiple deregulating fields address the (mis)alignment across fields as regards the dominant state-market-sustainable development configuration, and on understanding the the drivers of these processes.

6.7. CONCLUSION

In the last decades, a process of gradual deregulation and privatization has been initiated in a number of sectors globally. Concurrently, a movement in favour of more environmentally, economically and socially sustainable human activities has arisen. This chapter explored, by drawing on the electricity sector as illustration, how the irruption of sustainability concerns and objectives can affect the shift from the state-to market-based coordination of an industry. We have identified and illustrated a set of state-market-sustainable development configurations which might emerge and become dominant in an organizational field. We have then discussed how these configurations could be employed as lenses to shed light on the dynamics taking place in key institutional contexts.

This chapter aimed to contribute to the literature in different ways. A key objective has been to advance knowledge on deregulation processes, by providing insights on the consequences the irruption of sustainable development objectives may have for the shift from state-based to market-based coordination. We identified and discussed those that we believe are fruitful future avenues for research in this domain, by integrating different streams of literature, e.g. the one on SOEs.

In addition, the chapter aimed to contribute to research on institutional complexity. While scholars have mainly focused on the interaction between two logics, our work explored the dynamics that may be enacted by the irruption of a third logic in a field where two main logics interact. Also, we seek to spur a reflection on the complex relationship between non-market logics and the market logic, which is not limited to the shift from the former to the latter. Furthermore, the chapter highlighted the
existence of both intra- and inter-institutional complexity in an organizational field, and the need to explore the related dynamics.

We also intended to provide a contribution to organizational fields theory, on one side, by indicating the importance of relationships and mutual influence between fields at the same, higher or lower level and, on the other side, by signalling the need to study the coevolution between institutional complexity and field (re)structuration. Finally, by continuously confronting existing theory with the actual dynamics observed in the electricity sector, we meant to respond to the call for problem-driven research made by Davis and Marquis (2005).