Using Internal Contracts to Promote Intrapreneurship in the Public School System: Hopeless Half-Measure or Promising Hybrid? *

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Abstract
In this paper we explore the use of a novel governance form – internal contracts - in the Swedish public school system, in terms of its effect to promote intrapreneurship in the organization. We studied a public school that during the time period 2007-2010 was a test case, by performing interviews with management and staff and through a questionnaire measure entrepreneurial behaviour and other relevant aspects in this school and two control schools. The results show that the internal contract gave the school room to act entrepreneurially and that it is a promising organizational tool for renewing the public sector.

Introduction
The public sector in Sweden and many other countries in the Western world are subject to political pressure to move away from a market characterized by monopoly to that of competition. This kind of pressure combined with different types of public sector reforms and the introduction of various management concepts originally developed for industry might be understood in terms of New Public Management (NPM). NPM can be described as a trend that during the last decades have resulted in increased focus in the public sector on quality, efficiency and output (Hood, 1995). In many Swedish municipalities, as a consequence, parts of the activities are outsourced to private entrepreneurs but still financed by taxes. A relatively new form to organize parts of the public sector is “internal contracts” (Swedish: Intraprenad). In this form, the municipality maintains ownership and the role as employer but the employees operating the unit are given a higher degree of autonomy to foster entrepreneurial

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behavior (Lumpkin and Dess, 1996) in the unit (i.e. that the employees act proactively, takes calculated risks and are innovative). At the same time the employees are, via a contract, held more accountable than other units within the municipality organization. One idea behind using internal contracts is to achieve a more market oriented and output oriented perspective without the uncertainty external outsourcing yields (e.g. risk of failure and non-compliance with standards from the external party). It can also be seen as a way of developing the existing organization with retained security of employment for its employees/actors. Thus, internal contracts may be a good way to infuse intrapreneurship (Pinchot, 1985) and thus renewal into the public sector. However, if internal contracts provide too little room for action, employees within these units may opt to become “real” entrepreneurs instead and abandon the public sector leaving it less apt to change internally. In other words, are internal contracts as a governance form a doomed half-measure or is it a hybrid form that may provide renewal to the public sector? This paper will address this issue focusing on the Swedish public school system, where the concept of internal contracts emerged a couple of years ago and today is being evaluated.

To our knowledge, the internal contract form of organizing public sector work has not been researched and therefore the purpose of this exploratory paper is to investigate problems and opportunities with the internal contract form, and to compare if there are differences regarding entrepreneurial behavior in school units under internal contract compared to ordinary public schools.

**Theoretical Framework**

In this section, we will first discuss intrapreneurship in general and in the context of the public sector. Then we will move the focus into the school system and especially how it has developed in terms of governance. Finally, we discuss different forms of contracts used for
governance of this system, where internal contracts – the focus of this paper – receives the main attention.

**Intrapreneurship in the public sector**

In research, the concept *intrapreneurship*, coined by Pinchot (1985), denotes entrepreneurship *within* existing organizations (Antoncic & Hisrich, 2003), where ways of thinking and acting deviates from what it taken for granted, i.e. what is institutionalized. The origin of intrapreneurship is found in research and theory on entrepreneurship. Like in entrepreneurship research, focus within intrapreneurship research has often been on the individual, rather than on organizations and processes (see e.g. Davis, 1999; de Jong & Wennekers, 2008). Some researchers however look at intrapreneurship as a management concept (see e.g. Antoncic & Hisrich, 2003) and place focus on the responsibility of management to create an environment that makes the entrepreneurial individuals willing to stay within the organization and a culture that promotes entrepreneurial behavior (Hjort, 2001). This type of research emphasizes relations between intrapreneurship, organizational change and management.

There is, for example, research showing that the intrapreneur, rather than executing the goals of the organization, is a self-appointed actor that initiates and carries out organizational changes based on ideas created in the daily activities (Brunåker & Kurvinen, 2006). This means that intrapreneurs are not to be regarded as ‘silent followers’, easily controlled, but as actors questioning established work practices (Heinonen & Toivonen, 2008). This “management problem” is also dealt with by Hjort and Johannisson (2004), who argue that the conflict between management, on the one hand, and entrepreneurship, on the other hand, is most explicit in the case of intrapreneurship.
Since intrapreneurship is stemming from the entrepreneurship field, most literature focuses private sector organizations. In recent years, however, researchers have paid attention to the fact that it is not only within private sector organizations that there is reason to think of employees as intrapreneurs. As a result, a number of concepts denoting entrepreneurship within public sector organizations have developed, e.g. ‘institutional entrepreneurship’ (Liu & Dubinsky, 2000; Sundin & Tillmar, 2008), ‘public sector entrepreneurship’ (Sadler, 2000) and ‘public intrapreneurship’ (Johannisson, 2004). In other research, based on less instrumental/managerial approaches, focus is on how to reframe the neo-liberal term ‘entrepreneur’ social entrepreneur (Fawcett & Hanlon, 2009).

The use of contracts and internal contracts within the Swedish public sector

As has been noted, the public sector in Sweden and elsewhere is subject to political pressure to move away from a monopoly situation to a market based on competition, which has resulted in increased focus on quality, efficiency and output (c.f. Hood, 1995). In response, parts of the activities of the public sector are outsourced to private entrepreneurs. By the use of contracts, these activities are carried out and owned by private external actors, but financed by taxes (Sundin & Tillmar, 2008). Possibly as a response to this development, a yet newer form of organizing parts of the public sector is emerging in Sweden. Rather than outsourcing parts of the public sector by contracting external operators, some public sector organizations are starting to use internal contracts. This means that the organization maintains ownership and the role as employer, but that the employees of the unit in question (e.g. a school, a library or an elderly care unit) is given a higher degree of discretion regarding how to use its resources. From the employer’s perspective, the aim of the use of such internal contracts might be to promote entrepreneurial behavior (i.e. employees being proactive, risk-taking and innovative) within the unit/responsibility center and to achieve a more market- and
output-oriented perspective without the uncertainty of external outsourcing. From the employee’s perspective, the aim of working under such internal contract might be that it increases autonomy and discretion regarding the use of resources, without having to “go all the way” and deal with the financial uncertainty of starting an enterprise or being employed by a private actor. In other words, it gives them the possibility of being proactive and innovative without having to be too risk-taking (i.e. by starting and running a private independent school with substantial economic risk involved). The only risk is that the internal contract is not renewed.

The internal contract and the development of the Swedish public school system

In many ways the internal contract used within the public sector represents somewhat of an anomaly, a hybrid or even a bastard (c.f. Christensen et al, 2005) based on elements of both private and public logics. On the one hand, aiming at increasing the responsibility and autonomy of responsibility centers, these units are however on the other hand still subject to many of the governance and control mechanisms characterizing the public sector. On the one hand, the school is supposed to act on a market characterized by competition, while on the other hand still being financed by taxes. On the one hand, it is subject to the rules of bureaucracy, while on the other hand given decentralized responsibility. Further, it is to go from input oriented control to more emphasis on output, and from being governed based on results to put focus on customers and to a split between purchaser and provider (Siverbo, 2004).

Apparently, the use of internal contracts can be regarded as yet another manifestation of how New Public Management ideas infuse public sector organizations (c.f. Hood, 1995). Looking at the development of the Swedish school system over the past decades; however, there is reason to discuss what caused the very introduction of internal contracts. In the 1980s,
the public sector school system was criticized for being inefficient due to lack of competition, and as a result, based on neo-liberal ideas in the early 1990s, the Swedish parliament decided that so called ‘independent schools’ would receive public funding (Lindgren & Packendorff, 2008, p. 201). These schools, though privately owned, would be financed by the municipality and controlled and evaluated by the National Agency for Education. There are now more than 1000 such schools in Sweden housing more than 10 % of the Swedish students (Friskolornas riksförbund, 2011). The emergence of such a large number of independent, privately owned but publicly funded, schools was possible due to the fact that the Swedish school financing system was reformed in two radical ways: the introduction of a voucher system that replaced the earlier centralized system together with the introduction of parental choice (Sandström & Bergström, 2005). While some of the independent schools1 financed by such vouchers based on parents’ choices of schools are aimed at special groups of students (e.g. religious groups2), most do not and thereby compete with public schools for the same groups of students (ibid). Additionally, public schools are competing with other public schools for students, because of a reform according to which local authorities are free to allow students and their parents a choice not only between public and independent schools, but also between public schools (Telhaug et al., 2004). This development is the same as in other Scandinavian countries, in which “decentralization goes hand in hand with augmenting user influence, which will weaken political control over schools and strengthen the power of individual actors” (Telhaug et al., 2004, p. 157).

Bearing these changes in mind, the anomaly mentioned above perhaps stands out as less contradictory. There is reason to believe that the reason why many municipalities introduce

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1 In Swedish literature, the term ‘independent schools’ often denotes privately owned schools subject to government control and funding. Another term for the same type of school is ‘private government-dependent school, used in contrast to the term ‘private independent school’, which denotes schools that do not get funding from the (local, regional, national) government. Such schools are rare in Sweden, which might explain the use of ‘independent school’ for privately owned, but government funded schools. See Dronker & Robert (2008).
2 Approximately 10 % of the schools are based on confessional grounds (Friskolornas riksförbund, 2011).
internal contracts is that they wish to counteract competition from independent schools. Faced by the competition represented by these schools, municipality organizations run the risk of being left with the same administrative costs, but a smaller number of students. As middle-class parents choose independent schools for their children, the public school system runs the risk of being “left” with students from less well-off communities and of segregation between different groups of students (Telhaug et al., 2004; Lindbom et al., 2007).

Moreover, the public sector school system, because of the competition from independent schools, runs the risk of competent teachers leaving the public sector schools to work in independent schools they believe are subject to less constraints represented by municipality bureaucracy. This means risks of losing competent, innovative (and entrepreneurial) teachers, which would leave them with less entrepreneurial teachers and jeopardize the quality of the public sector school system.

The issue of independent schools is also debated in politics. Why should tax money feed private owners? How is the surplus used? Is it invested in developing the school or does it merely enrich its private owners? In addition to such issues there might be reason to discuss whether the municipality organization represents a more professional owner, that the bureaucracy itself favors professionalism and that it provides more room for the teaching profession, free from neo-liberal ideology and ‘customer-orientation’.

Returning to the hybrid of internal contracting, it might thus be a way for the municipality organization to prevent employees to become entrepreneurs and start independent schools, to keep control over tax funded activities, but, at the same time, to promote attitudes and behavior associated to entrepreneurship. Though there is a concept in Swedish (“Intraprenad” as mentioned in the introduction) for a school governed by an internal contract, there is no equivalence in English (possibly because the form does not exist in Anglo-Saxon countries). Drawing on the concept of ‘independent school’, which denotes a
privately owned school financed by taxes, we hereby therefore introduce the concept of ‘public independent school’ to denote both its similarities to and its differences from the concept ‘independent school’. In addition to announcing that the school is more independent compared to other schools within the municipality organization, the concept tells us that the school is public and, as such, still subject to control and governance by its public owners. This means that also in the label ‘public independent school’, the anomaly discussed above is manifested.

Methods

The focal organization is a public independent school in north Sweden catering for about 380 pupils from elementary to junior high school level. The school has about 45 employees where the vast majority is faculty. In July 2007 it started a three-year trial to work under internal contract – which was prolonged and currently still is active.

Data Collection

The present study uses four main information sources. First, we have interviewed actors in the school, including the management (principal and vice principal) and faculty. Altogether 12 persons were interviewed between 50 and 120 minutes about their experiences operating under internal contracts. Second, a web-based questionnaire was sent to the entire faculty and staff at the school plus two control schools (traditional public schools) in the same municipally and having the approximate same size and pupil body (response rate ~ 77 %). The questions covered aspects on entrepreneurial behaviour in their school, as well as aspects on goals, responsibilities, effectiveness, cooperative climate and competence level in their organization. Third, we have accessed archival material about scholastic (and other types of) performance and fourth we have studied the contract which the school worked under.
Measures

Items reflecting entrepreneurial behaviour are based on Voss, Voss & Moorman (2005) and measured on a seven-point Likert scale. All five aspects (innovation, market proactiveness, employee autonomy, competitive scanning and risk-taking) comprise three items and have good measurement properties with alphas between 0.70-0.90. Among process and performance variables three are single item measures (clear goals, clear responsibilities and staff competence), one is a two-item measure (effectiveness) and one is a three-item measure (Cooperation), where the latter two have alphas in the 0.80s. Control variables (age, gender, tenure and three experience aspects (in the profession, in private sector and as entrepreneur)) was collected to be able to find out if the three schools have different staff constellations.

Analysis

For analysis of qualitative data content analysis and pattern matching was used. For the quantitative data, ANOVA and Tukey’s procedure was used to detect differences between the schools.

Results

When first scrutinizing the contract that the school works under, it seemed that the room for action is highly limited. The details in the contract, if adhered to closely, would keep the school under rather tight control and force the school to not stray away from the path of being a traditional public school.

When we look into the qualitative material about the public independent school, using interviews and text documents, we have five themes, namely “Administration and Services”,


“Student achievements”, “Employee perspective”, “Service innovation for the good of the students” and “Overall evaluation of the test period”. After these have been presented, we move over to the quantitative results displaying the level of entrepreneurial behavior and a number of process and performance variables in the focal school and two similar public schools.

**Administration and Services**

Regarding governance and organization, the material shows that the formal organization of the school has not changed as a result of its transformation into a public independent school. However, because of increased autonomy, the importance of certain groups and functions are augmented as the interest and motivation of teachers to engage in different groups has increased. This means that, as a result, teachers at the school feel more involved in decision-making processes and they seem to participate in different groups because of their commitment rather than because it is their duty. Further, some centralized overhead functions that were previously provided by the administrative agency of the municipality organization are now managed autonomously by the school. This means that the school is free to “buy” the services they find necessary, for example those of welfare officer, student nurse, student counsellor, speech educator, and remedial teacher from the municipality organization or to “out-source” these functions to external consultants. Also, the school has chosen not to purchase the service provided by a pool of supply teachers managed by the administrative agency. In terms of costs, the school has saved money as a result of its ability to choose what services to purchase. For example, as there has been no need for the service of a student counsellor, the school has saved 10% of its annual turnover.

**Student Achievements**
In the internal contract, a number of criteria for the scholastic achievement of the school are stipulated. These criteria indicate a shift from input to output and result oriented governance. The material shows that, after the transformation into a public independent school, the scholastic achievement of the students of the school has improved. Additionally, it shows that the scholastic achievements are better than at other comparable schools, including “non-independent” public schools as well as private independent schools in the region. Additionally, after the transformation into a public independent school, the school has managed to meet the competition from other comparable schools in terms of numbers of students.

**Employee Perspective**

We have also investigated the results of the transformation into a public independent school from the employees’ perspective. It shows that the teachers at the school in general are of the opinion that the atmosphere is better and that there is a good spirit among the teachers. They also feel that there are better opportunities and resources for learning and professional development. The transformation into a public independent school also seems to have created a more flexible view on working-hours, characterized by a student oriented attitude. For example, some of the interviewed teachers say that it has become more important to spend time helping and supporting students rather than “locking the door to the office after school hours” and that they spend time in the class-room correcting tests to be able to help students that are doing their homework. Some of them also say they help students after ordinary working hours. As a result of the internal contract, the contract normally regulating the working-hours of teachers within the municipality is set aside. Instead, being “free” to plan their working-hours, teachers are expected to put in as much time they feel necessary. This means they, if engaged in “entrepreneurial” activities, such as teaching on Sundays, having
breakfast with students in need of support, designing web-sites or taking a single pupil to the swimming hall to teach him or her to swim, work substantially more than they did before the internal contract. This however means that the management of the school has to watch over the teachers so they do not work too much, in order to prevent ill-health. It also means that, according to the teachers interviewed, that the teaching establishment, represented by teachers at “non-independent” public schools, have developed negative attitudes to the staff at the school as they feel there is a risk that these types of flexible working-hours will “spill over” to other schools, eventually leading to longer working-hours and higher performance demands for all teachers within the municipality organization.

Service Innovation for the Good of the Students

Although the way or the process of teaching has not changed as a result of the transformation of the school, a number of services have developed. For example, there is a “morning school” for students in need of special support and help, between seven and eight o’clock every morning. The concept includes breakfast that the students have together with the teachers that choose to participate. Based on the interviews, it is more or less the same group of students that attend the morning school, although there is a larger group of students attending in connection to important tests. Another new service is called “homework emergency ward”, opened for students in need of special support, which is open between two and four o’clock most afternoons. Additionally, for students that are identified as having problems passing a particular subject, there is a concept called “Intense support weeks”, implemented when there is a need for it. Also, teaching during weekends and the summer break are aimed at giving students support. In addition to measures aiming at helping students in need of special support, there are also activities aimed at increasing collaboration between
the school and organizations, companies and other actors outside the school. The idea is to promote the students’ entrepreneurial behavior.

**Overall Evaluation of the Test Period**

The interviews aimed at studying intrapreneurial attitudes and behavior, such as innovation, creativity and organizational learning, as well as if, and to what extent, the transformation into a public independent school had an impact on daily activities and work practices. Taken together, the interviews indicate that both management and teachers are very satisfied, that the perceived freedom to act is high and that most actors see few restrictions for action. Both management and teachers at the school argue that rules and traditions prevailing in the “normal” public school are put aside to achieve desired outputs. This means that, from the employer’s perspective, the internal contract has resulted in desired (entrepreneurial) attitude.

**Quantitative Results from the Questionnaire**

In Table 1 below, we display the demographic profile of the three investigated schools. As can be seen, the three schools have a similar staff body, where the typical teacher is a women around 50 that have worked about 10 years in the present school and having a few years additional experience from teaching, and limited experience from private sector and even less from own entrepreneurship in terms of running a company.

**Table 1. Demographic profile of the three schools.**

As these demographic variables can be used as controls, to make sure that the schools are not different in their composition of their staff, we tested if there are any significant differences between schools. The only significant difference found was that respondents in
public school 2 have a longer experience of their present tasks than the two other schools. This indicates that the three schools are similar in these aspects and that the difference in other variables don’t stem from their staff being different in their basic makeup.

Turning to the main variables, entrepreneurial behaviour, Figure 1 portray the score for the five aspects over the three schools.

**Figure 1. Differences in means for the five dimensions of entrepreneurial behaviour.**

As can be seen, the internal contract school is higher on all five dimensions, and using Tukey’s test for differences between means, it is significantly higher than both the other schools for proactiveness, innovation and autonomy, and significantly higher than one of the two other schools regarding risk-taking and environmental scanning.

For the process and performance dimensions (Figure 2), the internal contract school is significantly higher than the two other schools on three dimensions (effectiveness, clear goals and clear responsibilities) and higher than one of the other schools on cooperation, while there is no difference regarding perceived staff competence in the three schools.

**Figure 2. Differences in means for the five process and performance dimensions.**

**Discussion**

In this section, we will discuss the findings and offer conclusions. As indicated in the beginning of the results, the contract that the independent public school worked under seemed to leave little room for the school to act, but as the other results clearly portray, the school was indeed able to use the room for action that the internal contract on an overall level offered. The entire faculty and staff were very satisfied with the organization of the school and how they worked. The perceived freedom to act is high and the actors seem to see little restrictions
for actions. Both management and faculty agree that unwanted rules and traditions that are in place in the normal public school are intentionally put aside to achieve desired outputs.

In the questionnaire, the results are very clear – it seems that the independent public school is quite a different breed compared to the public schools. While the two public schools do not differ from each other on any dimension of entrepreneurial behaviour, the independent public school is higher than both these two in three categories and higher than one of them in the other two categories. Thus, it is quite clear that the focal school portray a high level of entrepreneurial behaviour which is also supported by the qualitative material, where there are many indications that the staff is proactive and come up with many innovative solutions to better take care of their students and their needs. It is also clear that the focal school is doing well in terms of performance – both in terms of better using their resources and achieving goals.

To be able to draw more clear conclusions on the effect of using internal contracts, it would have been preferable to also have measured the level of entrepreneurial behaviour and other variables prior to starting the test period. However, since the qualitative results also support that there has been a shift towards a more entrepreneurial orientation (with many new services started and a generally stronger drive among the staff) and that the results are better both in relation to earlier years at the focal school and in relation to other schools in the same region, it seems quite clear that the internal contract have influenced the school to become more entrepreneurial and also be able to perform better. Thus, the question about whether this hybrid school form is hopeless or promising can only receive one answer. The municipally where the school is located have, based on the results of the test period, started to implement the internal contract as a governance form in other parts of its organization – both in schools and in other parts of its organization. Thus, we can conclude that the results and analysis
support the idea that using internal contract is a promising hybrid that can renew the public sector and possibly make it more effective.

To be better able to evaluate the level of entrepreneurial behaviour in the focal school, it would be interesting to also include independent schools in future studies. Then we can get a view on how the public independent school is doing in relation to a school having fewer restraints and thus is able to act more freely. It would also be interesting to study more schools under internal contract to be able to see if the result in our study is robust.
References


Table 1. Demographic profile of the three schools.

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Figure 1. Differences in means for the five dimensions of entrepreneurial behaviour.

Figure 2. Differences in means for the five process and performance dimensions.