

# LOCAL AUTHORITY'S ABILITY IN NETWORK CONTEXT<sup>1</sup>

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## **Abstract**

Lately, local authorities have privatised services widely (Van Slyke 2003, p. 296) and network-type arrangements have been created between public and private sector organisations (Schienstock and Hämäläinen 2001, p. 128). The purpose of this paper is to report some early findings of an exploratory study aiming at identifying abilities of local authorities in their different networks. The findings of this study provide ideas to understand abilities which local authorities have and need when organising welfare services in public-private networks today.

The theoretical starting point of the paper is network competence (cf., Ritter and Gemünden 2003b) supplemented by governance types (Considine and Lewis 2003, p. 133). Behind network competence can be found Håkansson's (1987) notion of networking ability which includes on the one hand a firm's ability to improve its overall position in a network and on the other hand its ability to handle individual relationships. (Ritter and Gemünden 2003b, p. 746; cf., Ritter, Wilkinson and Johnston 2004, p. 176) This paper complies with Ritter and Gemünden (2003b) and calls a firm's ability to manage their network of relationships a firm's network competence (Ritter and Gemünden 2003b, p. 746). This study considers limitations of local authorities to organise their service production in a networked way because of legal and political reasons which may demand more hierarchical or corporate-market organisation (cf., Considine and Lewis 2003, p. 135). Adding the level of governance orientation to the model of network competence helps us to understand the context in which an authority values network management qualifications and executes relation-specific and cross-relational tasks.

Early findings suggest that a part of local authority's ability in network context may link with the governance orientation of the authority. Cross-relational planning task of the authority seems to have the link particularly, but also some other links may exist. The findings suggest considering governance orientation in addition to Ritter's (1999, p. 471) network competence framework in studying the local authority's abilities in network context.

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## Introduction

Public organisations have increased their co-operation with organisations of public, private and voluntary sector (Keast, Mandell, Brown and Woolcock 2004, p. 364; Bahle 2003, p. 15; Brown and Potoski 2003, p. 153). Complex and intractable social problems may call for this on the one hand (Keast et al. 2004, p. 363) and necessity of public organisations to improve cost-effectiveness and quality on the other hand (Van Slyke 2003, p. 296). Widely spread privatisation of services has led to cost savings in many cases (ibid p. 297; Lunt, Mannion and Smith 1996, p. 369). Generally privatisation success with cost savings has been seen to depend on the existence of highly developed and competitive markets, and types of services, which are less complex, like waste and snow removal, street repair etc. (Van Slyke 2003, p. 297).

A way to organise production and delivery of privatised services is with network-type arrangements, which have been created between public and private sector organisations (Considine and Lewis 2003, p. 132; Schienstock and Hämäläinen 2001, p. 128; Kettunen 1999, p. 72). Networks have been seen to fit in with complex social problems (Keast et al. 2004, p. 364) and to have potential also more generally as forms of collaboration between government and the private sector with greater flexibility at the front line (Considine and Lewis 2003, p. 132).

Research of business networks has shown, that inter-organisational co-operation in networks is seen as a way to gain competitiveness (Ritter and Gemünden 2003b, Ali-Yrkkö 2001, cf., Achrol and Kotler 1999, p. 147). Håkansson has marked that "...there are substantial differences between companies in their ability to handle networks." He has also introduced the notion of networking ability in 1987. (Ritter and Gemünden 2003b, p. 746) Ability to operate in networks and network competence are essential for the firm to be able to achieve competitive advantages and survive in networked economy (ibid pp. 753-754).

Ability to operate in networks has been noticed to be essential for public authorities to be able to achieve potential benefits of networks (Keast et al. 2004, p. 370; Bate 2000, pp. 485, 508). The potential benefits, which the authorities seek, seem to vary according to the specific network. Generally the potential benefits can be supposed to link with tasks and goals of the authority. Survival, instead of maximum net profit, (cf., Alderson 1950, p. 78) seems to be a central concern of the most participants in networks producing public services. Organisations of public sector do their, often statutory, duties by executing and organising their public service tasks. Voluntary sector is non-profit (Hayes 2002, p. 258) by its nature. Maximum profit seems to play minor role even for some entrepreneurs providing welfare services. They aim at earning their living meaningfully more than maximizing their profit. (cf., Andersson and Kainlauri 2001, p. 6; Simonen 1996, pp. 17-20).

At this stage, there is still a lack of knowledge about the abilities an authority has and needs when creating welfare with private service providers in the networked way (cf., Kettunen 1999, p. 73). To fill this gap, authority's abilities in public-private networks call for further research. It seems to be import to understand what an authority does (e.g., service type) and why it does that (e.g., goals) to be able to understand how it organises the service (e.g., governance types), and finally to understand the abilities of an authority.

Political economy framework (Hersch and Styles 2001, p. 22; Toyne 1989, p. 10; Stern and Reve 1980, p. 54), originally created for the analysis of distribution channels, (Stern and Reve 1980, p. 54) seems to be helpful tool to analyse the local authority and its networks. Generally the economy side “has as its goal the efficiency of the interorganizational exchanges” and “the polity has as its goal the effectiveness of the structuring of interorganizational exchanges” (Toyne 1989, p. 10). The external economy “can be described by the nature of ... vertical and horizontal markets” and “external polity can be described by the distribution and use of power resources among external actors” (Stern and Reve 1980, p. 55). Particularly just the external aspects of polity and economy seem to play central role. Things, which form the external environment, can be seen to affect the local authority, as well as networks of it. The external environment consists of things like “...national social welfare goals, market preferences and demand, industry structure, industrial policies, and the laws and regulations affecting the network of trading partners...” (Toyne 1989, pp. 10-11)

**The purpose of this paper** is to report some early findings of an exploratory study aiming at identifying abilities and roles of local authorities in their different networks. The level of analysis is the organisational level (cf., Ritter and Gemünden 2003a, p. 693), although informants are individuals. However, network competence is an issue of the organisation as a whole (cf., Ritter and Gemünden 2003b, p. 753). The theoretical starting point of the paper is network competence (cf., Ritter and Gemünden 2003b) supplemented by governance types (Considine and Lewis 2003, 133). Also service type and goals of the organisations are considered. In the other words this study considers also political and economic environment and questions what is the local authority doing, why is it doing that, and how is doing that with private and non-profit organisations. This helps to understand abilities of local authorities as well as special features of this context.

The study applies a **case study approach**, a research strategy, which can involve either single or multiple cases to arrive at conclusions about certain phenomena, or to recognise complex interrelations and ambiguities of social life (Eisenhardt 1989, p. 534; Gummesson 2001, pp. 34-35). The evidence of this study is primarily qualitative (interviews) aiming at to build a holistic picture about the phenomenon in a single case. The case is used to generate theory, to recognise dissimilarities and interrelations (cf., Gummesson 2001, pp. 34-35) in a context different from the one in which the construct – network competence – was developed.

Single case approach was selected to study a narrow part of the field thoroughly to gain deeper understanding of complexities rather than to achieve measurements or generalizations. The study focuses on a net of public and private actors offering housing services for aged people. This sector has faced privatisation and extensive growth in Finland in recent years (Kanniainen 2002, pp. 41-42).

The case was selected on theoretical and practical grounds. It is theoretically interesting as an extreme situation (cf., Eisenhardt 1989, p. 537). The municipality has privatised the main part of its housing services for aged people and there exist various types of service providers. Therefore, it can be seen as a rich potential source of evidence. Furthermore, it is relatively small and not too complicated to handle.

Practical reason for selection was the easy access and availability of secondary data (e.g., Andersson 2000).

Case interviews were conducted in March and April 2004. The data was tape recorded and transcribed. Preunderstanding in the research area was created in a pilot study in 2003, conducted in same branch but in different area, with six interviews and their analysis. In the private sector, interviewees were entrepreneurs or directors of service providers, which were presumed to have an overall view of their network. In the public sector, lower-level officials responsible for the particular services were interviewed. Their work is likely to be less “contaminated by political rhetoric” (Considine and Lewis 2003, p. 139) and that is why they are seen as key informants in this study too. Four respondents are interviewed from three of the four service providers belonging to the net by this point. On the authority's side the superior of the sector of services for aged people, which is one of four sectors of basic security centre of the case municipality was interviewed. Although the saturation point has not been reached yet and the analysis of the data is in its early phase, it is possible to bring up some tentative observations.

The report starts with introductory part considering the background and the purpose of the study. Then the implemented methodology is described. In the following part the central concepts are discussed and conceptual framework is introduced. Next, the case study is presented and analysed. After that, conclusions are drawn, and directions for future research are discussed.

### **Concept of Ability**

Dictionaries define ability as the capacity to do something (The Concise Oxford Dictionary), capacity or power (The Oxford American Dictionary of Current English), and developed skill, competence, or power to do something (A Dictionary of Psychology in Politics and Social Sciences). In the Oxford Dictionary of English Grammar the term is particularly applied to dynamic meaning of can and could. The traditional distinction is that while ability is qualitative, capacity is quantitative (The Oxford Dictionary of American Usage and Style in English Language Reference). The Oxford American of Current English defines competence as an ability; the state of being competent while A Dictionary of Psychology (in Politics and Social Sciences) defines it as the capacity, skill or ability to do something correctly, efficiently, or a person's or a group's ability or knowledge. (<http://www.oxfordreference.com>) Webster's dictionary (1994, p. 300) refers to competence as “the quality of being competent; adequacy; possession of required skill, knowledge, qualification, or capacity (1994, p. 300). All together, competence “refers to subjects' comparative qualities to reach the defined goal. Competence is an actor-specific state, which the actor either holds or not...” (Tautila 2004, p. 16)

Capability and performance are adjacent terms to competence and they seem to be mentioned in connection with it often. An organisation needs internal capability to reach goals, which are stakeholder-specific and situation-dependent. The capability consists of attributes available to the organisation and directly manageable by it. The attributes can be classified into groups of assets, individuals' competence and structural competence. Organisation's internal capability to reach the goals is organisational competence (Tautila 2004, p. 88), which creates performance for the

organisation. In the other words, performance refers to an action of the organisation and to the results the organisation provides (ibid p. 17).

In the IMP literature ability is according to Håkansson's (1987) notion networking ability which includes on the one hand a firm's ability to improve its overall position in a network and on the other hand its ability to handle individual relationships. (Ritter and Gemünden 2003b, p. 746; cf., Ritter, Wilkinson and Johnston 2004, p. 176)

This paper complies with Ritter and Gemünden (2003b) and calls a firm's ability to manage their network of relationships as a firm's network competence (Ritter and Gemünden 2003b, p. 746). Network competence is understood here as ability of an organisation that may be a private business firm, a non-profit private organisation, or a public sector organisation – a local authority for example.

### **Local Authority's Ability**

Local authorities are often monopolists as public service providers because they have statutory authority to manage them in a municipality. They can use power within their authority. This puts a local authority's management of relationships and networks at one extreme. Namely, local authority can be seen as an organisation, which "is able to choose its relationship partners and control and direct the way relationship operates" (Ritter, Wilkinson and Johnston 2004, p. 177) on one hand. This seems to be the case with the "internal political economy" (cf., Stern and Reve 1980, p. 54) of the focal network only. On the other hand, a local authority has limitations due to the political system, and it is not totally free to choose its partners and control the relationships. Politicians may make decisions concerning purchasing strategy, which set guidelines for authorities how to organise public services. (cf., Toyne 1989, pp. 10-11) These strategic decisions deal with questions like make of buy, the number of suppliers, and the way suppliers are organised (Gadde and Håkansson 1997, p. 433). These things seem to relate with the "external political economy" (cf., Stern and Reve 1980, p. 54) of the focal network. So, taken all together, local authorities seem to have a double role and position, which is stronger internally and weaker externally.

To understand the special features of public authorities three governance types are brought in. The types are procedural, network and corporate-market governance. They are ideal types, but they exist as public service-delivery norms, at least in some degree, also in actual frontline of public services. (Considine and Lewis 2003, pp. 131, 135) The procedural type follows rules and protocols, has high reliance on supervision, and has an expectation that tasks and decisions will be well scripted. Corporate type has the idea that managers should set targets for officials and this type highlights comprehensive performance-measurement systems. Market governance type stresses reduced planning, flexibility, and less regulation. "Quasi market" is the form of coordination and contracting out, competitive tenders, and principal-agent separation is employed in market governance. (ibid. p. 133) Network type is an alternative in which the authority continues to rely on outside agencies, "...but in a form of stronger strategic partnership... Clients, suppliers, and producers are linked together as co-producers" (ibid. pp. 133 - 134). According to Considine's and Lewis's findings (ibid. p. 135) corporate and market types are merged to corporate-market governance also here.

The governance types have different sources of rationality, their forms of control, and primary virtues are different as well as service delivery focuses. (Considine and Lewis 2003, p. 133, 135) Governance types represent service delivery norms or orientations (ibid. p. 138). Here the governance types can be seen to represent orientations how to organise services too. Therefore, the governance types are proposed to increase our understanding of local authority's network competence. For example, if politicians do not allow an authority to be network oriented, the authority is supposed to be less network competent than the one with network governance orientation. The governance orientation may also change and authorities need abilities new to them, which typically is the case with bidding. Authorities may even have various governance orientations simultaneously, or public-private cooperation may include competitive and command elements.

The conceptual framework for analysis depicted in Figure 1 is modified from the network competence model (Ritter and Gemünden 2003b, p. 748; Ritter 1999, p. 471), which is combined with the three governance types of Considine and Lewis (2003, p. 135).

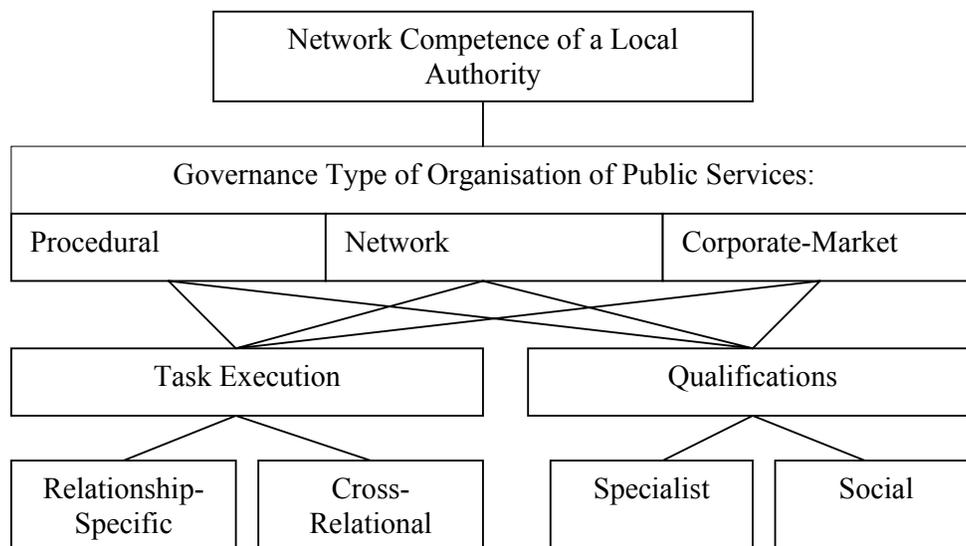


Figure 1. Conceptual framework of the study. (Modified from Considine and Lewis 2003, p. 135; Ritter and Gemünden 2003b, p. 748; and Ritter 1999, p. 471).

### Case Description

The case municipality is Vihti with 24,954 inhabitants at the end of the year 2003. The total area is 567 sq. km. consisting of rural areas and communities. Vihti lies 30 minutes away from Helsinki, the capital of Finland. It is a growing municipality. Hundreds of people have moved in yearly in recent years. About 40 % of labouring people work in Helsinki or in its neighbouring towns. The main sources of livelihood are services and industry, although there is agriculture too. Shares of labour are correspondingly 66, 31 and 3 percent. (<http://www.vihti.fi>)

Private services of aged people's housing have emerged gradually in Vihti during last two decades and the municipality has increased to use private services simultaneously. There were two foundations' homes for aged people at the end of 1980s. In 1990s a private co-operative society started to run its home in the municipality's former home for the aged. A private health resort run by a limited company started a home in 2001. Today, there are four housing service providers for aged people in addition to the municipality's own care services.

The municipality has purchase contracts with the two foundations and with the co-operative society. The municipality and the service providers have agreed on prices, quantity and content of the service for a certain period of time (Perusturva 2000). The limited company has a contract of financial obligation with the municipality. They have an agreement on single patients' services and costs as well as a blanket agreement about the total amount of patients. The municipality pays according to daily charge.

Arrangements have gone on fluently as well as daily interactions between the service organiser and the service providers. There seem to be stable long-term cooperation and mutual understanding on activities. However, service providers would like to get more information and, for example, to participate in training, which the municipality takes part in or arranges. There have not been problems with the lack of information, but the service providers want to get proper knowledge of the arrangements of the future. A special feature of municipality service organisers is that municipalities prefer to purchase aged people housing services inside their own municipality. However, in some cases service organisers offer special clients or patients to be placed in neighbouring municipalities too.

There are interactions between the municipality and the service providers relating to the care of clients continually. The clients may need special health care services, for example. The personnel of service providers have contacts with municipality officials in these situations. A special common activity has been the placement of clients. There is a group of actors for that purpose. Its task is to plan, evaluate and place the clients. It has meetings monthly. The service providers have participated in the group until spring 2004 when the municipality changed the composition of the group. Since then there are only employees of the municipality in the group. The municipality made the change because it sees that as a payer and the one in response it should make the decisions too.

There is mutual dependence between the actors. The service providers having the purchase contract are dependent on the municipality, because it purchases the main part of the services. The service providers are not able to get substitutive customers without radical adaptations relating to their activities and scale of actions. The municipality is also dependent on the service providers because it must organise the services in any situation although it is free to select its service providers. Namely, it may be difficult to find new service providers and organise all the activities with them. It is also difficult to organise the change smoothly. The care of the clients should be persistent and free of disturbances.

One of the service providers sees a problem with the trustworthiness of the municipality as a partner. The policy of the municipality may change in the course of time. The election can bring new politicians in power and change the direction of the policy.

The municipality is planning to bid the contracts in the future. It has informed the service providers and is going to keep them informed of the phase of bidding. The service providers have adopted an attitude of waiting. They look forward with positive feelings; they believe they have good chances to succeed in competition. On the other hand they feel anxious too; they understand that they need to get new knowledge and they have to prepare themselves but they do not seem to be sure, how to do that.

### **Analysis of the Case Authority's Ability**

The case authority's ability in network context is analysed by comparing the findings of the empirical case study against the elements of the framework. First, the governance types are discussed. Then, the elements of network management tasks and network management qualifications are put under investigation.

The case authority seems to emphasise its position in the network producing services for aged people. In fact, the collaboration's structure does not seem to be of clear network type; it is a portfolio of relationships or connected relations around the hub, the main service provider, i.e. the municipal authority. Lately, the authority has started to do client's placement decisions alone. It tries to be not too connected with nonprofits and it is going to bid the services. This indicates that the authority may aim at more corporate-market type of governance. The problem arises whether the authority has an ability to maintain and enhance the functionality of the collaboration network simultaneously. Is the authority at the same time aiming at hierarchical rules, flexible co-production of services, or goal driven plans with cost driven contracts? It seems to us that the case authority is trying to apply all the governance types to the collaboration. On the other hand the case authority needs new abilities to be able to achieve bidding.

Network management tasks relevant to manage a dyad seem to have some special features in this public-private context. Relating to initiation tasks municipalities have been active to help new service providers to get started in some cases. On the other extreme, according to Andersson (2000), some municipalities prefer production of their own and they are not particularly interested to initiate a new relationship. The other relationship-specific tasks, namely exchange tasks and coordination, are arranged in accordance with the specific legislation.

Cross-relational tasks seem to have the biggest differences in comparison between network management of a company and a local authority. Planning in particular seems to be a task with special features. It is a task that is in the hands of the local authority. Other cross-relational and relationship specific tasks can be seen as consequences of the planning, in the limits set by the legislation, naturally. Planning and plans may vary widely because the authorities of different municipalities seem to have different methods and partially different principles in their planning, despite the fact that the target is, or at least should be, basically the same for all. There may be

differences between internal analysis, network analysis and environmental analysis between the authorities. These analyses generate an understanding of the situation and proper actions of the authority and the municipality. The planning may have a link with governance orientation. The analyses may be conducted differently depending on the point of view – is it to prepare for bidding, to find more flexible co-production partnerships, or perhaps to highlight details of hierarchical rules. In some cases authorities' planning tasks may even be to find reasons for own production if politicians prefer it.

Considering qualifications, network management qualifications are divided in specialist qualifications and social qualifications. Specialist qualifications include technical skills and knowledge about the other actors. Special features of these qualifications seem to be that there are provisions in a law setting directions in the case context. One group of specialist qualifications are economic skills. Local authority seems to need special types of them; they include elements of contract-management capacity (Brown and Potoski 2003, p. 155) and skills to calculate all costs associated with privatisation and its alternatives (cf., Van Slyke 2003, p. 308). The components of contract-management capacity are firstly, the capacity to determine whether to make or buy, secondly, the capacity to bid the contract, select a provider, and negotiate a contract, and thirdly, the capacity to evaluate the contractor's performance (Brown and Potoski 2003, p. 155). The authority has taken sufficiently time to make preparations for bidding in Vihti. The preparations consist of planning of principles and means, and the process of bidding.

The social qualifications seem mainly to be the same in the public as in the private sector. Local officials need communication ability, extraversion, conflict management skills, sense of justice etc. In general, local authority's network management qualifications seem to have closely the same elements as the public-management capacity. It contains specialist and social qualifications needed in public sector when it is organising services with private service providers.

## **Conclusions**

The findings of this study suggest considering governance orientation in addition to Ritter's (1999, p. 471) network competence framework in studying a local authority's network ability. The combined framework helps us to understand competencies in public-private networks. The level of governance orientation in the framework helps us to understand the context in which an authority values network management qualifications and executes relation-specific and cross-relational tasks. Particularly, it is easier to understand an authority's way to achieve its cross-relational planning tasks – “the targeting of a desirable state in the future” (Ritter and Gemünden 2003, p. 747). The knowledge of an authority's governance orientation will reveal this desirable state.

According to the preliminary results we dare suggest a managerial implication. Network competence of a local authority may consist of the same type of elements like the network competence of a firm. However, governance orientation of the authority seems to direct its activities. Therefore, knowing the governance orientation of an authority may enhance the understanding of an authority's network competence, or lack of it, perceived by an external actor. There seems to be differences between

competences linked with different governance orientations. Bidding, as an example, seems to demand special competence, which the authority, although otherwise competent, does not automatically have.

Findings presented in this report are very tentative by nature and the study has to be conducted to the end, before more credible conclusions can be drawn. By now it is clear that more research is needed to achieve better understanding of network ability of local authorities in public-private networks. Also governance types with their consequences are worth additional research.

One additional future research could be the one studying an authority with a double role. The same authority may act differently in separate, internal and external, relationships and networks, simultaneously. As an example, the authority may be a cost driven competitor in one sub-context and flexible co-producer in another sub-context. This type of findings might contribute to the related theory, if this “simultaneous match” is not self-evident - just segmentation and differentiation in a special context.

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