

# Making Business and Politics in Networks

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## Abstract

The purpose of the paper is to scrutinize how firms producing welfare services for the public authorities are connected to governmental and local politics. Political challenges of the firm are discussed as well. The study focuses on the literature of the IMP network approach, which offers a solid ground to observe networks in which business firms are involved. The literature of public administration considering public-private service production arrangements serves as another theoretical basis of this research.

The paper is based on a single case study of a network producing welfare services in a region in southern Finland. The study focuses on the social care, i.e. housing services for elder people. Within the single host case, the phenomenon is studied from different perspectives. It is constructed of three phases focusing on different aspects and actors of the co-operation in the network. Twelve informants in different positions of the service production were interviewed to get a holistic view of the phenomenon.

Public authorities have increased their interactions with private firms relating to the outsourcing of the welfare service production during the last decades. A firm's interactions with authorities are not only buying and selling activities and organizing the focal service. A firm has a political role to play as well. This may be less obvious than the business activities. However, when a firm produces, for example, social services it affects social policy. This can be understood as a basis of the idea of network paradoxes.

The study enhances our understanding of the political role of a private welfare service provider. Firms make not only business in public-private welfare service networks but politics too. The first finding relating to the first network paradox reveals that the firm producing welfare services to the public sector takes part in politics. The participation does not have to be active. The production of the service is enough to involve the firm in politics. The second finding relating the second paradox highlights the political outlook, which the firm needs to be able to make decisions concerning its network position. The position is partly political in networks with public actors. The third finding and the third paradox are about how to connect. The firm needs abilities to play in the political arena. One reason is the need to be able to survive in situations when the political actor uses its political power in a destructive manner considering the flexibility of the network.

The main contribution of this study is, that it makes visible the political role of the private service producer in the public-private network. The service provider is a part of the service structure of the municipality. As a part of it, firms are able to make improvements to the focal service and to the organization of the networked service production. So, firms may develop the service production and create ways to improve service quality and/or decrease costs. Furthermore, firms may develop new ways to organize the networked production of the welfare services or to create totally new services, or firms may contribute development of them. Finally, firms may develop political processes, at least in practical level. Together with the authority and some other network actors the firm has potential to do not only service innovations but political innovations as well.

**Keywords:** networks, politics, social services, welfare mix

## Introduction

Public sector has increased outsourcing in the last decades (Brown and Potoski 2003, p. 153; Van Slyke 2003, p. 296). Correspondingly, a growing amount of private business firms has adopted the role of a supplier. Network type arrangements with multiple producers have been created in welfare services (Keast et al. 2004, p. 364; Schienstock and Hämäläinen 2001, p. 128). Actors come from public, private and voluntary sectors (Bahle 2003, p. 7; Brown and Potoski 2003, p. 153). The services are produced according to a model named welfare mix, which is a networked way of welfare services supply. Suppliers are e.g. municipalities, governmental organizations, firms, associations and private people. (Andersson 2000, p. 11; Matthies 1996, p. 12). Political actors have unique roles in this network, but there are specialties relating to other actors also, as well as relating to activities, resources and political settings (Welch and Wilkinson 2002, p. 3).

These welfare mix networks operate in an area between private, public and third sector, which is called intermediate area, or intermediate level (Matthies 1996, p. 12). In this area these sectors intertwine and their actors are mixed together. Objectives, principles of activities, funding sources and motivations of different sectors are combined (ibid.) and mixed. Also part of actors can be seen as mixed (Welch and Wilkinson 2002, p. 21). The mix not only means that public authorities have something to do with the business and the authorities are in a need of business knowledge and understanding. Private business firms are involved in politics as well and understanding is needed about the involvement. This concerns not only the firms, but authorities and politicians too. As a consequence, it is an issue for researchers of the field to consider.

Accordingly, public procurement researchers have marked out a paradigm change in the USA (Lawther and Martin 2006). Neither the public production has proved to be an adequate mean to organize welfare services nor have the markets all the qualifications needed. A new paradigm of network type "relationship contracting" has been emerged in the beginning of the 21:st century. Also names like collaboration, networks, partnerships, strategic alliances and governing by network have been used. Fundamentally, the distinguishing feature of the new paradigm is a search for a middle ground between government and the market. (ibid.) IMP network approach (Easton 1992, p. 3) seems to share the idea behind the new paradigm, which is according to Schested: "...no single actor, public or private, has the all-encompassing knowledge, overview, information or resources to solve complex and diversified problems" (Lawther and Martin 2006). However, IMP network approach has concentrated on companies as actors mainly.

The study at hand focuses on the literature of the IMP network approach (Easton 1992, p. 3), which offers a solid ground to observe networks in which business firms are involved. The literature of public administration considering public-private service production arrangements serves as another theoretical basis of this research. Despite the seemingly big distance between these two approaches IMP literature can give a valuable contribution to the field of the latter where the New Public Management (NPM) paradigm plays a dominant role. Actually, NPM is the implementation of techniques and values new to the public sector and drawn from the private sector to a great extent. IMP network approach could be an alternative, which would make it easier to understand the meaning of efficiency and productivity simultaneously with democracy, community and the public interest. (Denhardt and Denhardt 2000, pp. 551, 557) On the other hand, the findings of public administration research could contribute to the IMP network approach considering situations in which public actors are involved in the network.

The purpose of the paper is to scrutinize how firms producing welfare services for the public authorities are connected to governmental and local politics. Political challenges of the firm are discussed as well. An extreme example may reveal a nature of networking (Ford et al. 2003, p. 178), which is more difficult to observe in a business-to-business context where public actors have a less central role to play. Welfare mix networks can be seen as a kind of extreme example of public-private networks. Actors have to co-operate tightly to be able to solve complex social problems (Keast et al. 2004, p. 363) and to improve the cost-effectiveness and quality of service production (ibid. p. 364; Van Slyke 2003, p. 296 - 297). Besides, this paper may enhance understanding how organizations should interact in public-private networks.

## **Methodology**

The paper is based on a single case study of a network producing welfare services in a region in southern Finland, which is a Nordic welfare country (Espin-Andersen 1990, pp. 26-27). A case approach was selected because the focus is on the phenomenon studied, not the case itself. Consequently, the study is instrumental. According to Stake (1994, p. 237), in instrumental case study, the role of a case is to bring insight into an issue that reach beyond the case itself. The specific case context aims to enrich the examination. The case is used to generate theory, and to recognize ambiguities of social life too. (Eisenhardt 1989, p. 548; Gummesson 2001, p. 35) A single case was selected with an idea to study a narrow part of the field thoroughly to understand the complexities of the phenomenon rather than to achieve measurements or generalizations.

### ***The data collection***

The study focuses on the social care, i.e. housing services for elder people. Within the single host case, the phenomenon is studied from different perspectives. It is constructed of three phases focusing on different aspects and actors of the co-operation in the network. Twelve informants in different positions of the service production were interviewed to get a holistic view of the phenomenon. Furthermore, one of the researchers experience as a teacher in the polytechnic involved in the case service production network is utilized in the study as preunderstanding. Also participant observations have been made.

The first phase of the study explored the roles of a polytechnic aiming to activate the co-operation with and between the network actors, running a web-tool and organizing education for the service providers. The scope of the first phase was regional and strategic. Data collecting and analysis took place in spring 2003. In this phase six interviews were conducted. Four persons of the polytechnic and the directors of a private service provider and a voluntary sector service provider were interviewed.

The second phase focused on the contemporary situation in the municipality that has outsourced the major part of the elder people's housing services to private service providers. The authority of the municipality is responsible for organizing these services either by own production or by contracting. In spring 2004 the directors of three service providers in the municipality were interviewed, which were all but one of the service providers. The head of the department of corresponding municipal authority was interviewed as well.

The practice may be different than principles and strategies, when street level bureaucrats (Niemi-lilahti 2002, p. 210) organize the services considering possibilities of the service providers and political and economical limitations. Therefore the informants of the authority and the polytechnic have been lower-level officials responsible for the particular services, i.e. street level bureaucrats (ibid). Their work is likely to be less "contaminated by political rhetoric" (Considine and Lewis 2003, p. 134, p. 139). In this study they are key informants because they as well as the directors of private and voluntary sector homes have the overall view of their network and the production of the service.

In summer 2005 the third phase focused on a private person as a user of the services to find out how the service delivery is actually realized from the customer (patient) perspective. The last home was accessed and the head of it was interviewed. On the customer side, one informant was interviewed in the phase. The person uses housing and care services provided by the home, which has become involved in the study in this phase. The interview of the home's director dealt with the service delivery to the individual user. Here the focus was on the daily level where the service is produced and consumed by the customers (patients).

### ***Analysis of data***

Personal interviews are the main source of data. Besides, documents and observations have been used as secondary data. The interviews were tape recorded and transcribed. In the analysis, the views and facts about the service production have been considered to create a holistic view of the substance of the network on the one hand and of context of the actors on the other hand. The transcribed data was analyzed by following the theoretical proposition (Yin 2003, p. 111) based on the analytical scheme of the analysis of three network paradoxes i.e. how should companies interact in business networks (Gadde, Huemer and Håkansson 2003, p. 358; Håkansson and Ford 2002, p. 133).

The data of the case has been compared in details against the three network paradoxes (ibid.) The data has been observed as nets of actors and the activity patterns as well as resource constellations and then meanings of the data to the paradoxes have been analyzed. Also context of the actors i.e. their embeddedness has been considered. Literature of public administration has been used in support of the analysis of non-business actors and their activities, resources and context. Reasoning follows abductive logic. The first clue has been a discrepancy between business activities in business-to-business networks and in public-private networks. The difference has been difficult to understand by using business-to-business literature only. On the contrary, the difference has been obvious in practice and other areas of literature have offered complementary knowledge.

## **Findings of the study**

Public authorities have increased their interactions with private firms relating to the outsourcing of the welfare service production during the last decades (Brown and Potoski 2003, p. 153; Johnson 1987, p. 140; Van Slyke 2003, p. 296). A firm's interactions with authorities are not only buying and selling activities and organizing the focal service. A firm has a political role to play as well. This may be less obvious than the business activities. However, when a firm produces, for example, social services it affects social policy. This can be understood as a basis of the idea of network paradoxes (Håkansson and Ford 2002, p. 134). Before concentrating on the network paradoxes the case network will be described shortly next.

Network paradoxes are something, which organizations may face particularly if they have close relationships with others, or if they influence others strongly, or if they control the network (Håkansson and Ford 2002, p. 134). The paradox is, that the original idea may turn to its opposite. The partners and the relationships may start to limit the freedom of the organization remarkably. So, the network paradoxes pose a challenge for the organizations to be able to balance between freedom and dependence, and on the other hand between loneliness and cooperation. The network paradoxes relate to management decisions of resources, activities and actors. (Gadde, Huemer and Håkansson 2003, p. 358; Håkansson and Ford 2002, p. 134; Mittilä and Leppälähti 2005)

### ***Welfare service network in the field of housing services for elderly***

The framework of a welfare supply network, depicted in Figure 1 illustrates the appearance of the case network. Ministries of the Finnish government and bodies of the ministries direct and control the production of welfare services and represent welfare state as a customer. Municipalities are legitimated and obligated service providers. They can organize the service as their own production or they can outsource it. An intermediate, or a facilitator, is typically a public organization organizing the selection of service users and taking care of the payments and issues like additional services. The basic security centre is one example of a facilitator in the focal case and the group making the placement decisions of the elderly is another. Another types of facilitators are organizations like a polytechnic, Employment and Economic Development Centre, or Finland's Slot Machine Association. These organizations help the service providers functionally like the two first mentioned or economically like the last one.

Commercial providers refer to privately owned and run firms like the two private firms running their homes in the case. Third sector service providers are associations, foundations, or another organizations alike offering services in the case branch. In the focal case, there are two foundations running their homes. Providers of other services are organizations serving the same customer (patient) as the home. An example could be a transportation service like an invalid taxi. Users of the focal service, aged persons in the focal case, not only consume the service but they are co-producers as well. Reference groups of the user consist of the aged person's close relatives and friends who may have a role as co-producer or a co-user of the focal service.

### ***The first network paradox***

A company has to choose whether to confront the status quo or to conform the current ways of operating. A firm's existing relationships may restrict its development although they are the basis of current operations and the development of the firm simultaneously. (Ritter and Ford 2004, p. 111). If a

firm chooses to develop its current operations it confronts the political status quo. If a firm continues a known system it conforms the status quo. This is the first network paradox. A firm takes part in politics whether wanted or not.

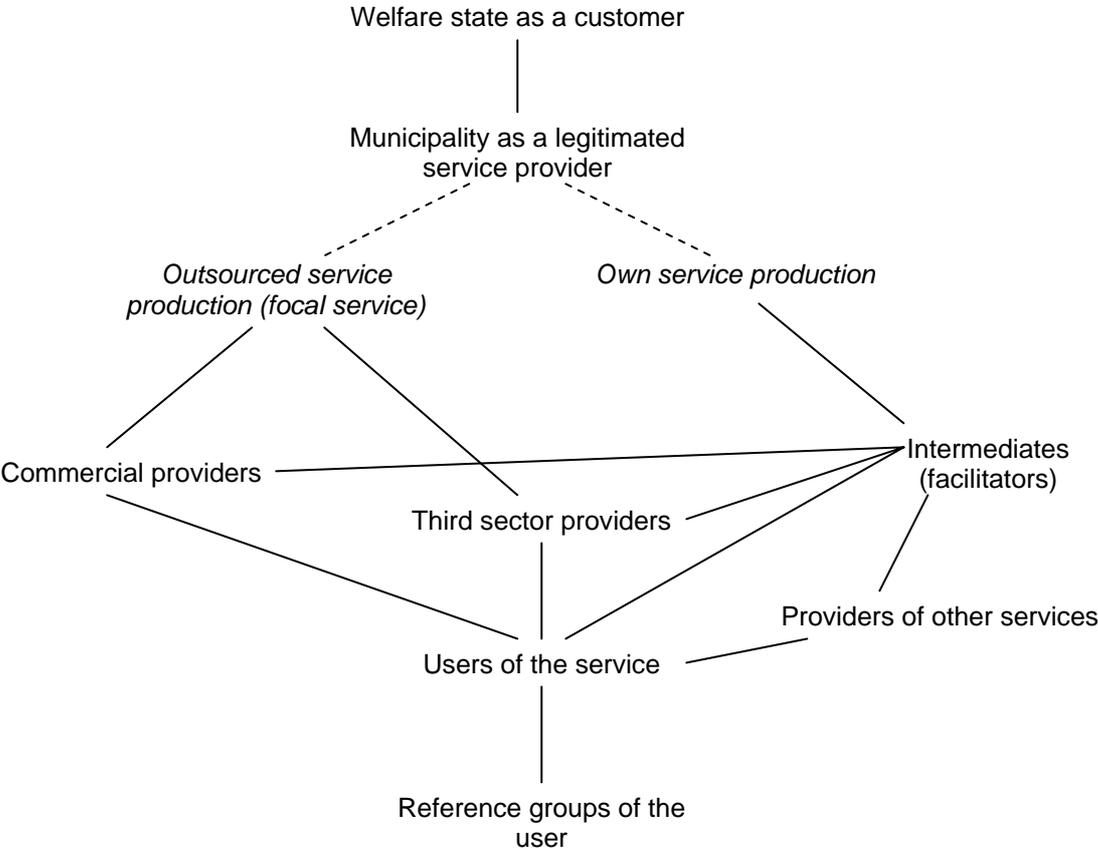


Figure 1: Welfare supply network (Mittilä and Leppälähti 2006, p. 8)

The case interviewees have mentioned this issue in several connections. All plans relating to the nature and scale of operations in the future can be seen as examples. The service providers seem to follow activities of the local authority carefully. Essentially, the service provider has concerned itself about the moves of the authority when the provider has planned a new unit and also when the authority has informed about changes in the contracting process. In an occasion the authority has given a promise to buy a certain amount of the capacity of a new special unit of one of the service producers at the planning stage. Then the service provider has realized the plan according to the promise. But, after all, the municipality has bought essentially less than the promise has been. Naturally, this has caused problems to the service provider, which has had to put special effort to find new customers to buy the free capacity.

The service providers also follow how the authority makes preparations for bidding. Besides, they think about possible alternatives for surviving in the new situation in case of weak success with bidding. Generally, the service providers seem to have commitment to continue their service production in stable ground once they have started in this business in the first place. This relates to investments needed, but it may have something to do with orientations of the people running these organizations also. Some of the interviewees have ideas how to organize their business if the bidding shorten the time scale and makes it more difficult to foreshadow future activities and resources needed. Although this can be seen as normal reaction of situational changes it has political effects as well. The amount of service providers is limited and the authority has to be able to organize the services anyway. So, the authority and the local politicians have to consider the actual situation of service producers.

Service producers make policy related to their day-to-day operations. One example of this is a placement problem of end users i.e. patients who need some type of special care, which means heavy workload. Fast and appropriate placement is essential for the achievement of high level, equal welfare service for the individual in the biggest need. Sometimes in practice, they have tried a few places before a correct, or a tolerable, unit has been found. Maybe the level of monetary compensation the unit gets has not been in an adequate level when compared with the workload these patients cause. However, welfare state should take care of just those persons whose situation is the worst, to achieve equality. Now it may happen, that person with the biggest need does not get the service she or he needs as easy as someone else. But it may be difficult to reward units whose patients are in a bad condition, when taking the point of view of control and direction. Although this can be seen as a matter of practical or economical organization of the focal service, it touches principles of social policy as well.

### ***The second network paradox***

A firm defines its relationships, and the firm itself is defined by the relationships (Ritter and Ford 2004, p. 111). The customer typically has “many heads” (Gummesson 2002, p. 73) in the social services sector. A social service firm defines its relationships to political actors like local authorities, local council etc. which are customers of the firm. On the other hand, political players define the firm at the same time. The network position of the firm can be seen as political to some extent. The firm has the choice whether it consolidates its existing network position or creates a new one (Ritter and Ford 2004, p. 111). When the network position is partly political, the firm needs political outlook in both cases. This is the second network paradox.

The preparations of service providers, which have been mentioned above when observing the first network paradox, for the future bidding and for the future activities are relevant to consider here also. The preparations link with the future network positions of the actors. Early steps of the service organizations have been taken typically in good collaboration between the parties concerned i.e. the municipality and the individuals founding the organization. Mutual understanding has taken the place also later, although there have been some exceptions and some details where actors have had opposite views. They have not caused major problems anyway and the actors have ended up to reasonable solutions mostly.

The private firm producing the social welfare service, which the municipality has outsourced, is defined by its relationships with the municipality in some extent. The municipality uses to play the major role as the biggest single customer, or as the only customer sometimes. There exist differences between municipalities how they treat their private service providers. As a consequence, the service providers seem to have dependence on the municipality, or even be at the mercy of it. In contrast, the municipalities have dependence on the service providers as well. The municipalities have obligation to organize the services and there are normally few alternative producers to contract with. So, the municipality, and the welfare state, may be at the mercy of the service providers at least partly.

### ***The third network paradox***

The firm has a choice about how to connect to other actors, too. This relates to the third network paradox. Firms try to control the network, but the control is destructive when it is total. (Ritter and Ford 2004, p. 112) Political actors try to control the network as well. The authorities are able to use political power but if they do so the network faces a risk to become less flexible, less realistic and less connected to the wider network (ibid.). The firm needs an ability to play in the political arena and stand one's ground.

The municipality has a tendency to control the other actors of the case network. It is able to do that because of the political power it uses. The controlling tendency of the authority links with governance orientations, namely procedural, network and corporate-market governance (Considine and Lewis 2003, p. 133). The case authority seems to adapt all of them simultaneously. As an activity point of view, this may be an issue of the third network paradox. Organizations try to control their surrounding network typically, but if one actor succeeds in its control ambitions, the network becomes less innovative. The network may become a hierarchy if one actor directs the development of the network totally. (Gadde, Huemer and Håkansson 2003, p. 358) As a resources point of view the simultaneous

adaptation of governance orientations increases competence demand. The needed competences seem to be a hybrid collection of competences of different governance orientations.

One example of the controlling tendency of the municipality is a change in one special common activity, which is the placement of clients. The organization for decision-making has been a certain group. Its task has been to plan, evaluate and place the clients. It has had meetings monthly. The service providers have participated in the group until spring 2004. Then the municipality has shifted its ground and changed the composition of the group. There are only employees of municipality in the group today. The municipality made the change because it sees that as a payer and the one in response it shall do the decisions after all. The municipality uses its power to control the network

### ***Consequences of the three paradoxes***

The paradoxes do not limit the power an actor may use, or what is the mutual influence of the actors, or the network position an actor is aiming at, when they are observed at short period of time. The situation may change at the long run and the actors perhaps find ways to balance between immediate interest of their own and point of views of the others as well as the whole network. The actors need each other's active participation to be able to solve the complex problems (Keast et al. 2004, p. 364; Lawther and Martin 2006). In the other words, the network has better opportunities to make service improvements and improve the service processes and innovate solutions to meet the future challenges than an individual firm or an organization of the public sector.

At the end, the new finding, the outcome of all this is that the business firms have become political players when public authorities have outsourced the production of services. The politics do not include only the business politics and strategies of a firm but social policy or the area of welfare policy in question, too. This may have side effects relating to the political role of a firm. A firm may have political responsibilities as well as political power. It is not, or at least it does not have to be, just a political object. It is an active actor with a central role. The role could be bigger particularly in development of services and in development of new flexible ways to organize networked production of these services.

## **Conclusions**

The study enhances our understanding of the political role of a private welfare service provider. Firms make not only business in public-private welfare service networks but politics too. The first finding relating to the first network paradox reveals that the firm producing welfare services to the public sector takes part in politics. The participation does not have to be active. The production of the service is enough to involve the firm in politics. The second finding relating the second paradox highlights the political outlook, which the firm needs to be able to make decisions concerning its network position. The position is partly political in networks with public actors. The third finding and the third paradox are about how to connect. The firm needs abilities to play in the political arena. One reason is the need to be able to survive in situations when the political actor uses its political power in a destructive manner considering the flexibility of the network.

Business is a tool or a method to realize political objectives of the public player. On the contrary, business enterprises play political roles, which may be used actively to realize business objectives. The playing of political roles are not necessarily lobbying type special activities. One outcome of this study is that politics is present in all, particularly in public-private networks. The mere existence of a social service firm has political connotations. There are situations when the availability of some service already matters for the authority. As well do the scale, the location and the facilities of the service provider and abilities of its personnel and things alike. The service provider is a part of the service structure of the municipality.

As a part of the service structure, firms are able to make improvements to the focal service and to the organization of the networked service production. So, firms may develop the service production and create ways to improve service quality and/or decrease costs. Furthermore, firms may develop new ways to organize the networked production of the welfare services or to create totally new services, or firms may contribute development of them. Finally, firms may develop political processes, at least in practical level (Niemi-lilahti 2002, p. 210). Together with the authority and some other network actors the firm has potential to do not only service innovations but political innovations as well.

The current marketing literature does not offer much for the firm to cope with the politics in general and with the relationships to and with political actors particularly. Accordingly, one contribution of the study is the revealing of a research gap. Much is known about how companies make business in networks. However, to be able to comprehend public-private networks, we need better understanding about how companies make politics. Not only private citizens, but also authorities and politicians are the customers of the company. At the end, they decide directly or through political process if the company will get their acceptance and payment, and to survive. Their criteria are basically political. To get a contract is a step in business, but it also is a step in a public spotlight in the political arena.

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