

# **Organisational Innovation in Public Services: Competition and Collaboration in Finnish Public Service Delivery**

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### **Abstract**

The logic of service delivery is changing profoundly due to technological, organisational, institutional and social innovations. This development paves the way for new forms of interaction and socio-economic composition in social and economic life. In this article we provide an overview of the on-going service transformation and apply it to public service provision and delivery. Our focus is on organisational innovation in public service delivery, which refers to innovations that aim at renewing or improving public service delivery processes and related organisational arrangements. In this context attention is paid to both competitive and collaborative solutions. In the empirical part, the transformation of Finnish public service delivery is discussed in the light of outsourcing in local government and of inter-municipal collaboration. Our conclusion is that the logic of public service delivery is increasingly based on the idea of marketisation with various manifestations. Yet, the other side of the coin is increased use of various forms of collaborative mechanisms, which tends to balance the development and show that collaborative synergy remains to be essential aspect of innovation in public service delivery.

## 1. Introduction

The organisation of public services and the entire logic of service delivery are changing profoundly due to technological, organisational, institutional and social innovations. These changes have paved the way for new forms of interaction and socio-economic composition, such as collaborative production, production networks and new governance models. Service transformation is going to fundamentally reconfigure the value chains in private service industries and is also making itself felt in the public sector (see Zysman 2006; 2007).

Our aim is to draw an overall picture of the changing modes of service organisation and delivery in the public domain with a special view to the role of service innovation. The aims of this paper are:

- 1) to analyse the background and nature of transformation of public services with a special view to application of both competitive and collaborative governance models;
- 2) to describe the emergence of competitive and collaborative organisation innovations in public service delivery with a reference to the case of Finland.

In the theoretical framework the transformation of public service organisation and delivery is briefly outlined. The theoretical part will yield new conceptual standpoints and a preliminary definition of public service transformation and service delivery innovation. Special attention is paid to two fundamental logics of governance and service delivery: competition and collaboration.

In the empirical part, the transformation of both state and local public services in Finland will be discussed, the emphasis being on local government. The source material of the empirical analysis consists mainly of previous economic and administrative research and statistical data.

## 2. Understanding service transformation in public sector

### 2.1. Innovation-based service transformation

Service transformation is an issue of socio-technical ontology, referred by Zysman as an 'algorithmic revolution.' It includes two key features: *IT tools* and *networks*. Information

technology (IT) and network enabled transformation will reorganise traditional business processes and the interaction between the private and public sectors. (Zysman 2006; Cohen et al. 2001; Zysman 2004.)

According to Zysman (2007), all services have important social and political dimensions. Service transformation will be controlled by regulation, which implies an inherent connection between service transformation and public policy. Service transformation will occur in the interplay of technology, policy, and markets. For these reasons the service transformation will be slightly different in every country and in each service sector. What is essential in public services is that they are collectively decided, controlled, and financed. Thus, service transformation in the public sector follows a logic that is somewhat different from private sector development, even if there are similarities as well.

As to our framing concept, *public service transformation* refers to changes in the production, delivery and consumption of public services enabled by the utilisation of new technology, by the creation of knowledge-intensive service processes, and by innovation in the organisation and socio-technical systems of public service. The most important impact of the ongoing transformation has been achieved through various kinds of public sector innovations – especially NPM-inspired organisational innovations – and their implementation in public governance and service delivery.

Innovation is a new product, process or institutional arrangement that is put into action to make positive incremental, radical or revolutionary change in social life. *Organisational innovation in public services* refers to those new and successful organisational arrangements or organisational forms that aim at renewing or improving public service delivery. Introduction and application of such principles as corporatisation, contractualisation and marketisation in public service delivery or of such new models as purchaser-provider split or private finance initiative (PFI) are examples of such innovations. Some of these kinds of organisational innovations are incremental, but when considered as a whole, their impact on public service delivery is significant. (See Figure 1.)

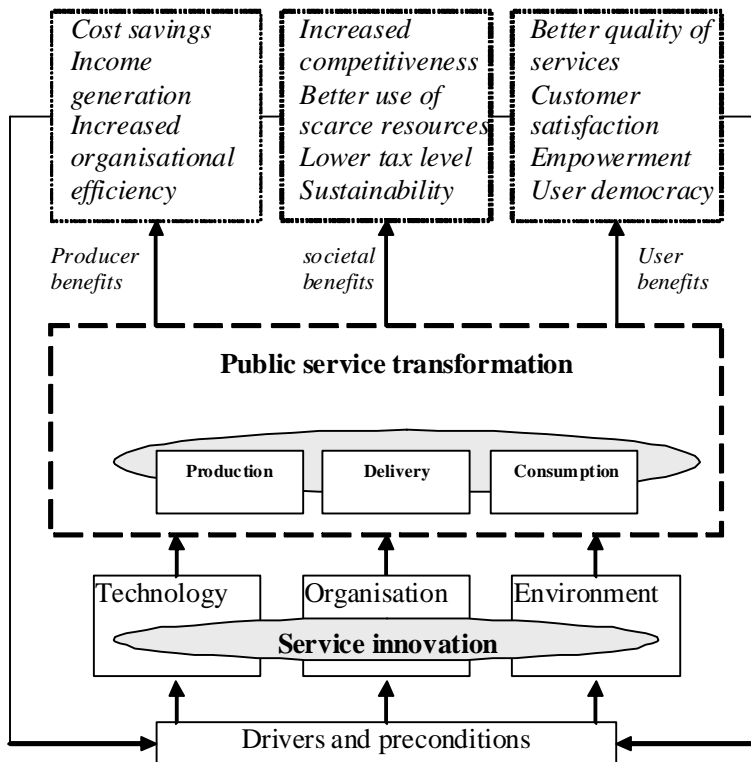


Figure 1. Means and ends of public service transformation.

Transformation in public services has various manifestations. For example, the logic of the organisation of public service delivery has been very supply-side oriented. Sooner or later the emphasis will most likely change to be on demand-side aspects of services, leading to systems in which demand has more direct impact on content and delivery of public services. One manifestation of this trend is slow but steady increase in the use of vouchers (see Valkama & Bailey 2001).

Also the production models are developing from in-house production towards outsourcing and especially competitive tendering. A forerunner in this field has been the UK, but most of the Western countries are following suit, each in its own way. In this paper we discuss the Finnish experiences of outsourcing.

In addition, service delivery models are developing, whenever applicable, from office-based systems towards online and ubiquitous delivery models and integrated service centres. These aspects of public service transformation are not explicitly discussed in this paper, but they have an

important place in this scene and such IT-enabled transformations have inherent connections to organisational innovations (See e.g. Venkatraman 1994; Anttiroiko 2008).

All the abovementioned trends imply that public service transformation is associated with a transition from a traditional functionally organised supply-oriented bureaucracy and related in-house production to a new e-enabled and user-centric public governance system and related networking and outsourcing functions. One of the tensions in this transformation is what will be the balance between market mechanism and community orientation, and related to this, how much public governance and service rely on competitive and collaborative arrangement. The latter dichotomy will be elaborated next.

## **2.2. Basic dimensions of governance: collaboration vs. competition**

We may approach the organisation of public service from the point of view of principal-agent theory. According to this view government is a 'principal', which may employ either a public or a private 'agent' for delivering collectively decided public services. The relationship between the principal and the agent can be either hierarchical or contractual, as illustrated in Figure 2.

A typical model is type I in Figure 2, in which the government has a command-obey relationship with the public agents. In some rare cases (type II), public duties can also be performed by the private agents. Privately owned but strictly regulated public utilities are examples of type II. Quasi-market theory challenges the hierarchical relationships and offers a contractual relationship as a modern solution to problems of bureaucratic government of public services. If the government negotiates and makes a contract with the public agent, it is an example of contracting in (type III), whereas a contractual relationship with the private agent is contracting out (type IV). (Lane 1997, 285-287.)

|                  |              | Type of agent |         |
|------------------|--------------|---------------|---------|
|                  |              | Public        | Private |
| Interaction mode | Hierarchical | I             | II      |
|                  | Contractual  | III           | IV      |

Figure 2. Principal-agent relationships in public service delivery (cf. Lane 1997, 286).

Types II, III and IV can be called *alternative public service delivery models*, which are associated with the ideas of New Public Management (NPM). NPM has become a global trend to challenge public bureaus by network-based and market-oriented arrangements. (Valkama & Bailey 2001, 55). Alternative service delivery systems mean the utilisation of means of delivering public services other than through traditional governmental and hierarchical bureaucracy (Russell & Bvuma 2001, 250). The overall transition, in the past twenty years, especially in developed countries has been described as a process of marketisation. *Marketisation* can be understood both in a broad and a narrow sense. In the former sense marketisation is a societal process characterised by a structural transition from planning economy to market-based coordination and organisation. In a narrow sense marketisation refers to the utilisation of market mechanism and to the supply and/or demand-side market incentives. The key idea of all measures is to make political and administrative command and control less tight and leave space for market incentives and mechanisms. (See e.g. Greve 2006).

*Contracting* starts by negotiations and ends into a bilateral or multilateral agreement. Contracts are usually legal ones, but in the quasi-markets there are also quasi-contracts made between internal partners. The implementation of contractual relationships has connections to various governance models, which makes *contract* a tool applicable to different contexts and on different grounds: contracting may be characterised by bureaucratic, network-type, or pure market-based features. Technically speaking, it is more or less binding agreement with clearly defined duties, responsibilities, and gains. It is carried out by two fundamental mechanisms, competition and cooperation, and both of these can be used for contracting out and in. In a *competitive model*, the government organizes a formal competition or creates competitive markets for all wishing to gain cost savings and other gains, like quality improvements through competitive bidding. *Cooperation*

*mechanism* is a way to create service delivery partnerships and networks. Cooperation-based service delivery is usually a result of mutual negotiations between contracting parties. A kind of mix of these two mechanisms is the case in which a long-term partner is sought for using competitive tendering.

**MAIN TYPES OF SERVICE AGENTS**

|                                 |                     | Bureau | Public enterprise | Government owned limited company | Non-profit private agents | Pro-profit private agents |
|---------------------------------|---------------------|--------|-------------------|----------------------------------|---------------------------|---------------------------|
| GOVERNANCE MODEL<br>Contractual | Hierarchy           | 1      | 2                 | 3                                | 4                         | 5                         |
|                                 | Competition-based   | 6      | 7                 | 8                                | 9                         | 10                        |
|                                 | Collaboration-based | 11     | 12                | 13                               | 14                        | 15                        |

*Figure 3.* Organisational and governance dimensions of service delivery.

Competition and cooperation based networking can usually be carried out by specific instruments or action models. Co-procurements, joint use, joint ventures, franchise, seed money, community partnerships and consortiums are typical collaborative networking instruments. Competition type networking is usually based on public procurements, rented chairs, PFIs and concessions. (Cf. Savas 1987; Osborne and Gaebler 1992, 31).

The most important competition-based public service delivery system is known as open public procurements where participants apply competitive bidding. In these public procurements, the government must choose the lowest cost or best value bid. The battle between service producers to win a contract is a process which increases economic efficiency, because in economic competition, competitors constantly try to find new or better ways to satisfy customers' needs and calls for bids. Non-competitive collaborative negotiations aren't usually open for a wider group of participants, but nevertheless, collaborative arrangement may also increase economic efficiency and help gain

for example scale of economics. In some cases, competitive tendering and direct cooperation are distinct and competing strategies, and it is a question of a political struggle which will be chosen. (Loza 2004, 297; cf. Dixon & Kouzmin 1994, 52-53, 61).

Competition and cooperation are occasionally closely bound to each other. In the case of outsourcing, contracting out usually needs to be started by a process of competitive bidding and the whole process is regulated by the public procurement legislation. In the phase of the call for tenders, the relations between public authorities and service providers are matched by a competitive environment. After a comparison of bids the contract will be signed by the principal and a provider as the forthcoming service agent. From that moment onwards the parties need to cooperate as contract partners. At a later stage, the contract needs to be put out again to tender because of the procurement regulations. Rotation and the coexistence of competition and cooperation within one contract relationship can cause special challenges in public service outsourcing.

A shift *from hierarchical government to contractual relationships*, however, creates not only opportunities, but also challenges and problems. As economics has shown, perfect contracts are impossible and rent-seeking behaviour by agents is always possible. Concomitance of many contracts will easily create challenges for coordination and integration. Problems of bureaucracy and monopoly power can be replaced by market failures, agency problems with opportunism, problems caused by asymmetric information, democracy deficit, and transactions costs. In principle, competitive tendering should make the service producers demonstrate their efficiency under the pressure of market competition, but in practice exclusion may persist in many municipalities due to lack of competitors. In opposite situations, a private service producer may become dependent on only one purchaser. Opportunities for cooperation are usually open only to selected candidates, and the deliberation processes are managed by only a few people.

### **3. The Case of Finland**

#### ***3.1. Finnish public services in a nutshell***

Finland is a unitary state and one of the Nordic welfare states with an extensive and decentralised delivery system of public services. The development of Finnish public services, especially since the early 1960s, has been based on the Nordic welfare society model. This model has been characterised by corporatism, professionalism, Weberian public bureaucracy, transparency based on the rule of law, and political consensus. The construction of the welfare society services since the 1960s took place at the same time as the Cold War and the heyday of Keynesianism, which together with fairly steady economic growth made it possible to expand the supply of public services, to raise the tax rate and to transfer to public sector various functions performed earlier by households and families. Due to the expansion of the welfare state only a small share of public services are pure public goods in the genuine sense of the word; most of them are toll goods and merit goods.

Finnish public services are arranged at three different levels: national, regional and local. At national level *the central government* takes care of so-called night guard services, such as legislation, army, police, security, judiciary system, and border guarding. (Ministry of Finance 2006, 7-8.) Compared to the state, *local governments* have a more important role in society both as providers and financiers of public services. In 2009 there are 348 municipalities in Finland and the figure is decreasing continuously due to ongoing mergers due to the Municipal and Service Structure Reform, which is a centrally initiated reform of local government structure. (Anttiroiko & Valkama 2006.) As to regional level, suffice it to say that *regions* themselves are weak, but large part of public service provision is organised at regional or especially sub-regional level due to increased inter-municipal collaboration.

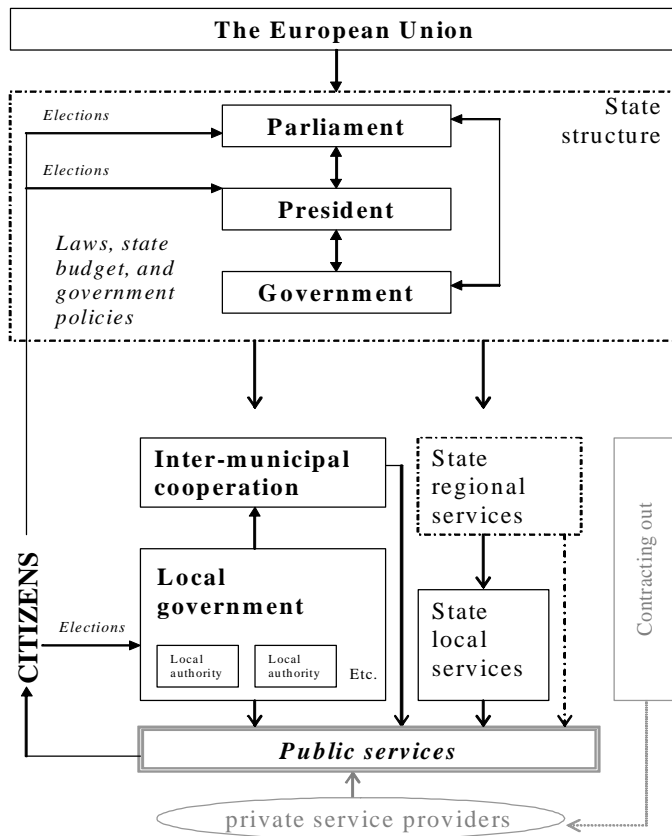


Figure 4. Simplified picture of the Finnish public service system.

It is difficult to define the exact scope of Finnish public services, because the boundaries of the public and private service sectors overlap and the sectors are partly interlaced with each other. Some public services have been outsourced to private organisations, and many privately owned companies and private associations are acting primarily as contractors of public services. On the other hand, central and local governments carry out some commercial activities and run public enterprises and companies. Central government is an important actor, for example, in commercial postal services, railways, air traffic, gas distribution, and R&D services. At the same time, both state and local governments provide services in electricity distribution, port terminal operations, property management, and some sub-sectors of civil engineering. Municipalities also run semi-commercial services like municipal housing services and urban transportation. Purely commercial local government services include such as parking facilities, some tourist attractions, and exhibition centres. (OECD 2006, 29.)

All these factors are manifestation of a new vision: more efficient public sector and more modest activities of traditional local public service bureaus. In the next section we briefly outline this transition by discussing and demonstrating how mechanisms of competition and collaboration are exploited in Finnish public service delivery.

### ***3.2. Outsourcing and competitive tendering in public procurements of local public services***

*Outsourcing* can be understood as an externalisation measure, in which tasks, which have previously been done in-house, are shifted to the responsibility of another organisation (Perry 1997). When applied to the public sector, this definition emphasises the process of procuring public service from external service providers. Public procurement is the process of the acquisition of local public services by means of open participation, in the most cases, by competitive bids given by competing service producers. Public procurements are strictly regulated by the procurement law.

*Competitive tendering* is a market based way to look for an answer to the classic make or buy problem of production. Competitive tendering can be defined as a process of calling for and submitting bids for a service through a competitive process in which prospective bidders must meet some set criteria and the bidder with the most favourable bid will win (Bhatta 2006, 114). If the purchaser of public services also has an in-house unit, competitive tendering can lead either to contracting in or contracting out. (Cambini & Filippini 2003, 166.) The main aim of competitive tendering is to generate cost reductions and savings on public spending. In contracted production, the total production costs will be replaced by contractor costs. But alongside contractor costs there are also transaction costs derived from contract administration. (Seidenstat 1999, 240.)

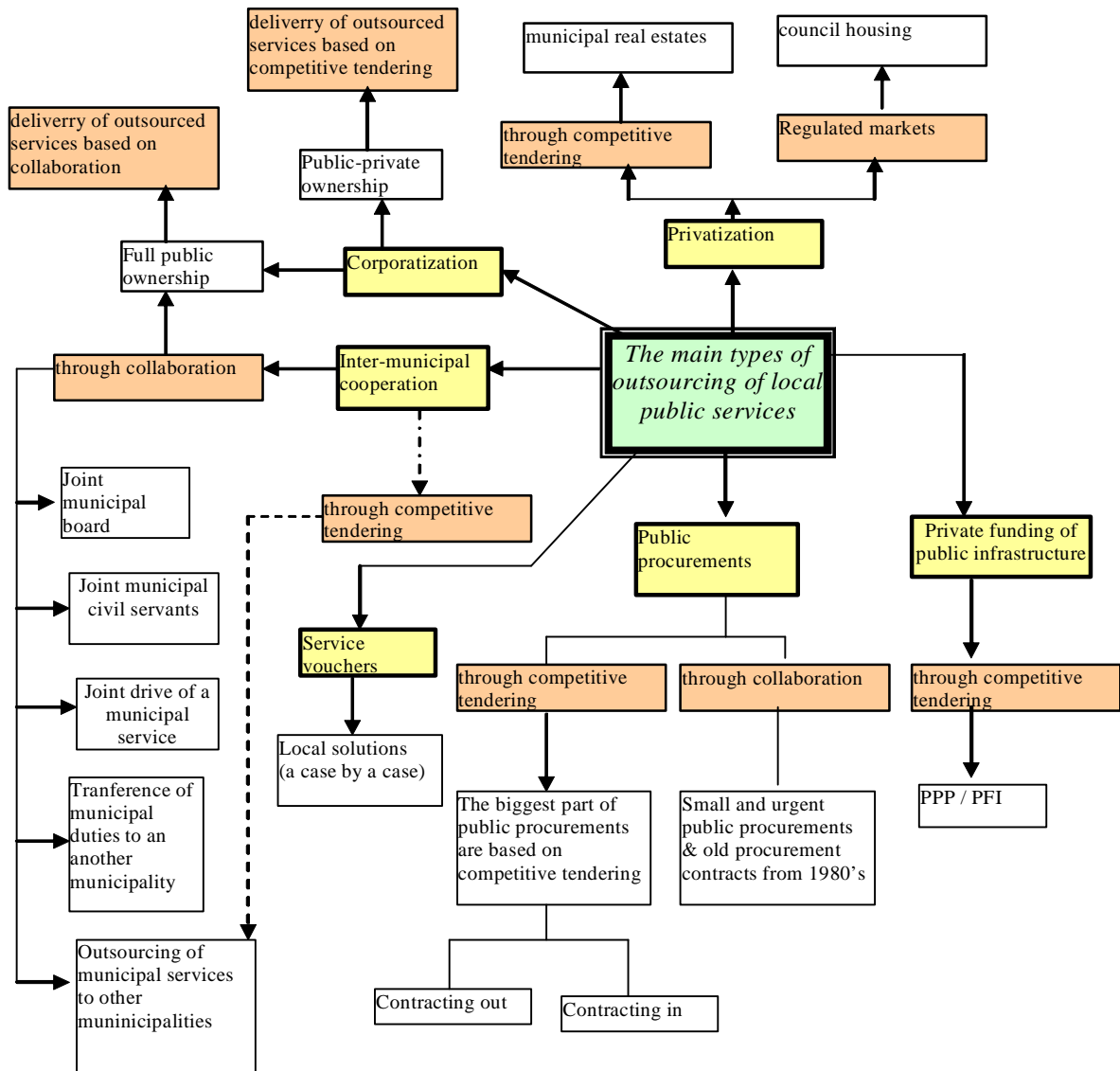
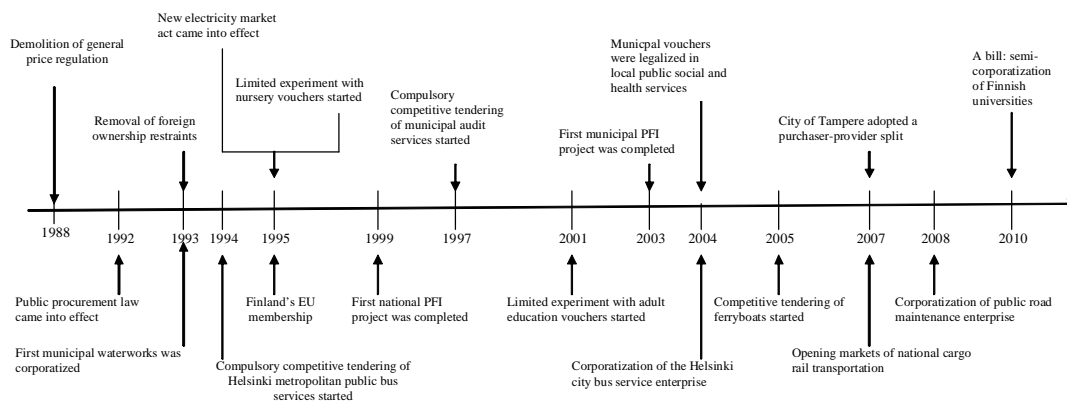


Figure 6. Main types of outsourcing of local public service (cf. Valkama 2004b, 231).

There has been quite a lot of academic discussion about the economic effects of competitive tendering. Most of the earliest research has concluded that competitive tendering for public services will deliver savings in public spending. (See Bailey 1995, 370; AIC 1996, 533; Bryntse 1992; Boyne 1998; Becker 2001, 94.) As a surprise to many, Bel and Costas (2006, 1-5) have claimed that most recent studies cannot demonstrate a clear and positive correlation between outsourcing of local public services and cost savings. They have claimed that the new evidence is mixed, because savings seems to vary in different services and disappear over time. Similarly

Bekken, Longva, Fearnley and Osland (2006, 29) have pointed out that we do not know whether savings and efficiency gains are sustainable after a few years (cf. Johson 1997, 143). According to Finnish empirical studies, so far competitive tendering of local public service has provided savings on local public spending or helped to control and keep contract prices on a cheap level (Valkama 2008).

According to some sources, public procurement accounts for 15 % of the Finnish GDP. There are no national statistics available on how many competitive tendering processes are organised and outsourcing contracts are signed annually in the public sector. The statistics of public finance include information in absolute terms on how much public funding has been used for outsourcing services. (OECD 2006, 54-55.)



*Figure 7.* A timeline of marketisation and organisational innovations of Finnish public services. (Cf. Kilpailuvirasto 2009; OECD 2004).

The extent of outsourcing for services purchased by municipalities has increased significantly due to corporatization of local public enterprises, inter-municipal cooperation and public procurements in recent years. Privatization of municipal properties and private funding (PFI) of local public real estates are not unusual outsourcing activities anymore, but a global credit crunch has stopped new PFI projects. Municipalities procure both customer services and various kinds of administrative and back office services both from the public and private sectors. At the same time, municipalities buy less and less materials, supplies and wares.

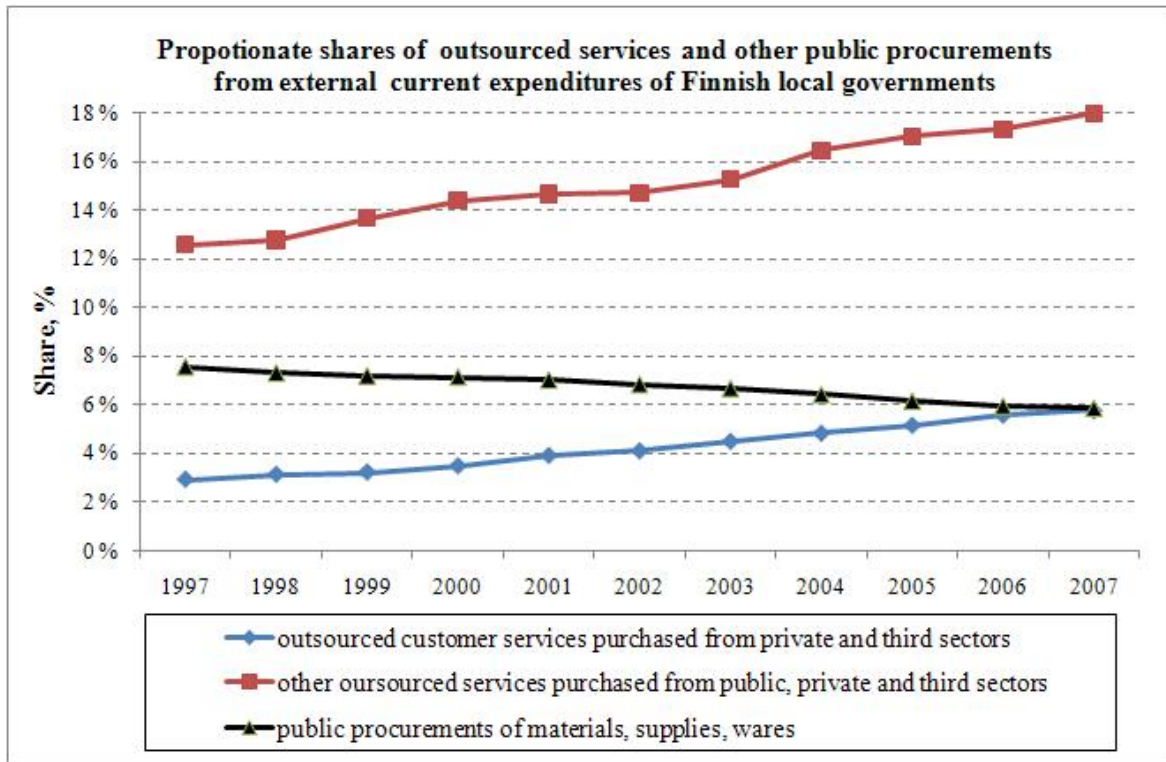


Figure 7. Share of outsourced services of municipal current expenditure.

Most of the customer services are outsourced customer services bought from other local governments and joint municipal authorities. Private firms and not-for-profit organisations play still a minor role in many social and welfare services. Yet during the last few years new social service enterprises have been established, and the market share of private companies is increasing. A recent study found that municipal efficiency was significantly higher in those local governments where a large share of services was bought from private firms and not-for-profit organisations and lower where services were bought from other municipalities (Loikkanen & Susiluoto 2006; OECD 2006, 54-55).

In-house service producers, local government enterprises and state-owned companies compete with private companies and not-for-profit service providers in a number of service sectors. Increased marketisation of service industries, outsourcing and competitive tendering have raised the question about competitive neutrality in service sectors. Representatives of private sector companies claim that the playing field is uneven, because government owned firms benefit from at least implicit financial guarantees or public subsidies. Governmental or semi-governmental units often have a dominant position in the service markets for historical reasons. Additional problems

of market entry arise when incumbent producers receive long-term outsourcing contracts, because the Finnish Competition Authority has no authority to order corrections to this kind of contracting. In-house service units might enjoy an advantage or a disadvantage depending on how the true cost of capital and overhead cost have been taken into account in bids. In-house service producers may benefit from an exemption from corporate taxation, an issue that has arisen in electricity services and waste management. In the quasi-market of public services, intentional and unintentional institutional competitive advantages and disadvantages are created by both legislators and local government decision-makers, but their net effects are unclear. The corporatisation of local government and state agencies and enterprises enhances competitive neutrality, but it cannot achieve balanced competitive neutrality, because a company owned by a public authority will remain under political control, and local public ownership is regulated more strictly than private ownership. These governmentally owned companies have more institutional disadvantages than their counterparts in the private sector, which could inhibit the willingness of public authorities and especially local governments to use corporatisation as a tool in their competitive neutrality policies. Privately-owned firms may be disinclined to compete with government-owned companies because of the political risk associated with such a company going bankrupt. The government-owned companies can be price leaders in the market more easily, as from their corporate governance is not always focused on profit maximisation and efficient operation. (OECD 2004, 86, 112; Valkama 2004a.)

### ***3.3. Inter-municipal cooperation in different service sectors***

The most illuminating example of collaboration in the Finnish public sector is inter-municipal co-operation. Such a co-operation has a long history. In fact, it is an essential part of Finnish “municipalism” and locally adjusted system of public administration. Inter-municipal co-operation has increased significantly and also got new forms since the mid-1990s. This, mostly voluntary, co-operation takes place in such fields as industrial development, education, health care, cultural activities, e-government and public transport (Haveri 2003, 321). What is essential in this development is the slow transition from ‘municipalism’ towards ‘regionalism’, for one of the most prevailing features of recent local government reforms since the mid-1990s beside the adoption of NPM-based organisation models has been regionalisation, i.e. the increased role of regions, sub-regions and inter-municipal collaboration areas in the organisation of local public services.

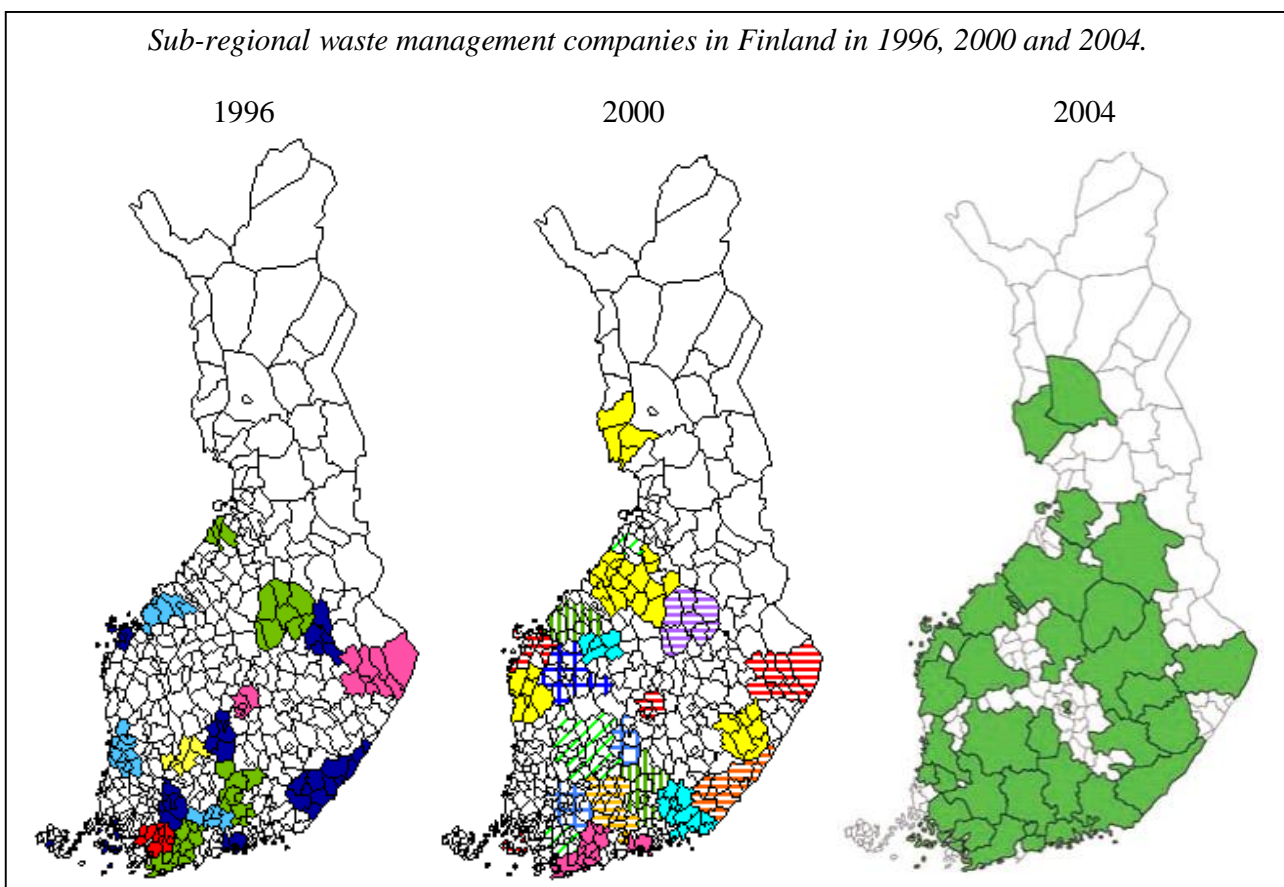
What follows is a brief outlook of inter-municipal collaboration. Forms of such collaboration are exemplified by sub-regional co-operation in the main service sectors as well as by the developments in waste management. Lastly shared service centres are briefly discussed as a most recent form of inter-municipal co-operation.

Inter-municipal co-operation in different service sectors is strongly supported by ministries responsible for each sector. Such a co-operation has increased significantly since the early 1990s within sub-regions and other constellations of municipalities. This development is supported by SEUTU Project of the Ministry of Interior. Also the Ministry of Education was active in promoting sub-regional governance. In 2003 it established a special working group for sub-regional co-operation and later in 2005 set up a Sub-region Project in Education with the aim to develop sub-regional co-operation and to improve the preconditions for organising inter-municipal co-operation in *education*. The project includes a special network project of Jyväskylä area and five other sub-regional projects. The network project of Jyväskylä focuses on basic education and the latter ones on upper secondary education (Opetushallitus 2005). In *health care* and *social services* many similar kinds of sub-regional projects have been established by local authorities. For example, municipalities of Joensuu sub-region established basic health care sub-regional project for 2005-2007. Similarly the City of Jämsänkoski and other municipalities of Jämsä sub-region set up in 2004 a two-year Care for Elderly People Project in the purpose of implementing a service structure reform and to pave way to a shift from institutional care to home care for the elderly. Five municipalities in Kouvola sub-region had similar kind of project for 2004-2006. These are only examples of the numerous projects in different service sectors which aim at increasing inter-municipal collaboration and renewing local public service systems.

An example that reflects the impact of EU regulation, on-going regionalisation of decision-making power and service production process in Finnish local government and adoption of NPM practices is *waste management*. Local governments have been responsible for organising and supervising local public waste management for a long time. In the early 1990s there was at least one dump in every local government jurisdiction. This situation changed in the 1990s and early 2000s dramatically. In 1993 there were altogether 498 public dumps, but by 2004 their number reduced to some 123. This is due to the increased inter-municipal co-operation. The main reason behind the “regionalisation” of dump management was actually Finland’s membership in the EU. Finnish standards and the quality of waste treatment by local government dumps did not match with the

requirements of the EU, which increased pressures to upgrade the quality of dumps. The only way to achieve better waste management systems has been the pooling of local resources at regional or sub-regional level. (Valkama & Siitonen 2001, 13-14; HE 48/1996; Tekes 2005, 3). In the case of Finnish local government the organisational form of inter-municipal collaboration was mainly based on corporatisation (see Valkama 2004a).

Figure 6 presents the areas of sub-regional and inter-municipal waste management companies, which indicates three trends: (a) increased voluntary inter-municipal co-operation, (b) increased corporatisation and (c) widening the geographical areas of waste management organisations. Figure 8 illustrates the mushrooming of Finnish regional waste management companies from 1996 to 2004. Instead of using the form of formal joint municipal authorities in organising their co-operation, local governments favour more flexible and efficient forms of organisation. That is why they have been inclined to establish municipal companies. Along with this policy local governments shifted the decision-making power of collection, transportation and treatment of waste to these companies.



*Figure 8.* Inter-municipal waste management companies in Finland in 1996, 2000 and 2004. (Valkama & Siitonen 2001, 13-14; Tekes 2005, 3.)

Another new form of voluntary inter-municipal co-operation is *shared service centre* (SSC). Such centres have been established to organise such support or back-office services as bookkeeping and payroll administration. After the accruals-based accounting reform of 1997 and especially since the early 2000s many local authorities initiated plans to reorganise their financial administration and accounting functions. They have established financial SSCs serving two or more local authorities. Thus, municipal financial functions were outsourced to service centres which are no longer part of municipal line organisation. The pioneering cases include Seutukeskus Ltd in Hameenlinna region, Päijät-Tili Ltd in Lahti region and Kitee region's accounting shared service centre known as Tilike. (Hyvönen et al. 2005.) Similar kinds of centres have been introduced by central government, and it seems likely that their number will be increased in the coming years.

In all, even if there is a clear shift towards market-oriented organisation and delivery of local public services, collaborative arrangements are still widely used within public sector organisations and between public and private organisations. What is important in this scene is the fact that both EU regulations and national legislation are sometimes causing hindrances and obstacles to collaborative arrangements at local level due to their preference of competition and the utilisation of market mechanism. There are cases in which rational and cost-effective contractual relations between public organisations or public authorities and public companies have been ruled out in the name of compulsory competitive tendering. Such situations have created tension between local choice and universal market principle, or in other words, local autonomy and market economy.

## **4. Conclusion**

The concept of public service transformation refers to a profound change in public service provision. On a theoretical level, public service transformation implies less bureaucratic, less formal and less rule-oriented public service delivery systems, which utilize IT tools and adopts new forms of organisation, especially networks and market-based solutions. At a macro level this trend is supported by globalisation, or more precisely global free-market policy, with a wide range of its manifestations. Another powerful trend is informatisation or more narrowly digitalisation, which also have a deep impact on all realms of society, including services.

Service transformation is a global trend affecting all sectors. In the public domain it refers to changes in the production, delivery and consumption of public services enabled by the utilisation of new technology, by the creation of knowledge-intensive service processes, and by innovation in the organisation and socio-technical systems of public service. The area in which this change is the most widely spread and applied to date is market-based public service transformation. This trend is apparent in most of the developed countries, and even most of the developing countries are following suit with models adjusted to their local contexts.

The case of Finland shows a clear shift from a traditional bureaucratic model towards new public management. Institutional framework has been under gradual redesign since the 1980s in the purpose of allowing marketisation and competition in their various manifestations to gain ground in the public sector. The most important single trend that reflects this trend started with purchaser-provider split and *ad hoc* tendering, but developed gradually towards qualified compulsory EU-based procurement system. The tendency seems to be increasingly towards the dominance of market principle and competition in the public domain.

A size of the civil service of the Finnish national government is clearly smaller than 20 years ago due especially to the corporatisation of many state enterprises and business activities. The local government sector has remained relatively the same size during the same time period. The ability to disseminate and adopt service delivery innovations reflects values of public policy supportive of the ideas of a learning nation and a pragmatic approach. Re-engineering and reforms in public service delivery have also made the public sector machinery more competent and efficient. Alongside traditional bureaucratic control mechanisms public bodies have gained and absorbed know-how about effective contract and transaction management.

It goes without saying that NPM-oriented innovations have their side-effects too, especially if applied to contexts to which they do not suit particularly well. In such circumstances inter-municipal collaboration has been the best solution for many small or middle-sized local authorities in the provision of public services. They have been able to gain collaborative synergies with fairly low transaction costs. Yet, even in this area business-like models, especially corporatisation, have become more common than traditional model of joint local authority. It shows local authorities ability to adopt organisational innovations in a flexible way with an intention to balance between

efficiency and democracy, or local choice and market mechanism. Finland is a good example of a pluralist and democratic country in which public service delivery is based on ‘mosaic-like’ structure or a hybrid model in which different models of governance and organisation are combined in the interest of guaranteeing cost-effective public service delivery.

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