

# Service Partnerships Reconsidered. What are the Alternatives to Opportunism?

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## Many public-private service partnerships are based on 'the outsourcing logic'

- concentration on core functions and services, with outsourcing of non-core services to specialized others
- motivated by prospects of lowered costs, increased service quality, strategic focus and entrepreneurial spirit
- ideally a network of highly specialized and competitive actors, each developing world class expertise in their niche

## While few doubt the overall soundness of this logic, many service partnerships fail after the honeymoon

- **opportunism** by shortsightedness and conflicts may result in escalating transaction costs and lowered service quality
- limits of imperfect competition, ambiguity and interactivity in service deliverables, **underestimating practice**

## **What are the alternatives to opportunism?**

Understanding service partnerships based on concepts of core competencies, transactions costs and resource based theories is not sufficient .

## **Towards a knowledge theory of partnerships**

Understanding practice: What is the nature of the service activities that is subject to partnership? What characterizes them in terms of tacit-explicit knowledge balance, learning dynamics and knowledge networks?

## Example 1: Road maintenance



A few years ago a participant in a development seminar for a Nordic Public Road Administrator drove a distance of 540 km on icy winter roads. Road conditions varied enormously. ‘What is going on? Is this a new phenomenon?’

### **Could the varying road quality stem from outsourcing?**

- Before outsourcing: Maintenance tasks like de-icing and spreading of sand used to be based on a common standard and local judgments made by experienced long-timers
- After outsourcing: Outsourcing to subcontractors based on the same standard with over 20 different contracts; local experience not always there
- ‘The old standard does not capture local adaptations or ‘ownership’, and provides no incentives for above standard maintenance’

## Example 1: Road maintenance, cont.

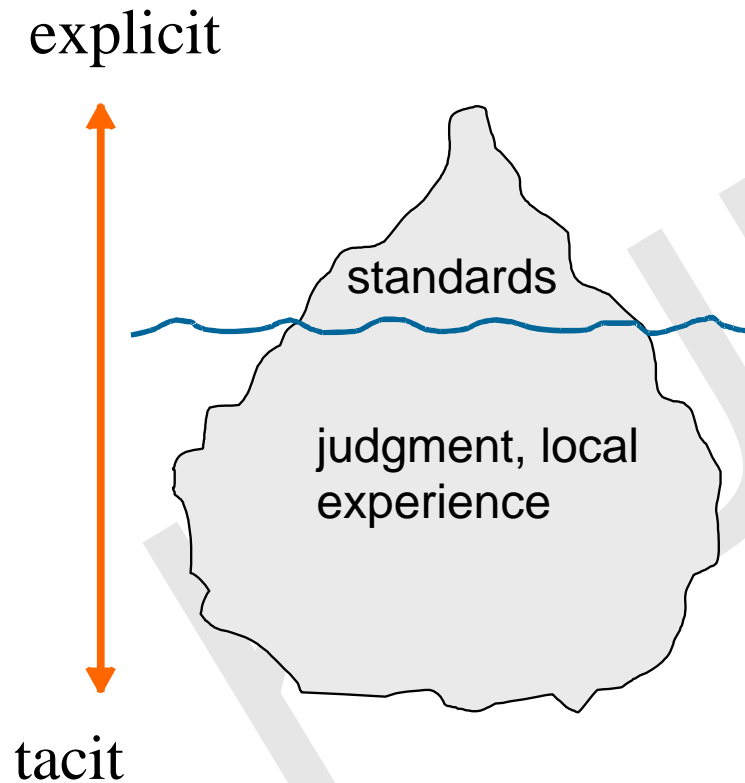


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### Related actions taken

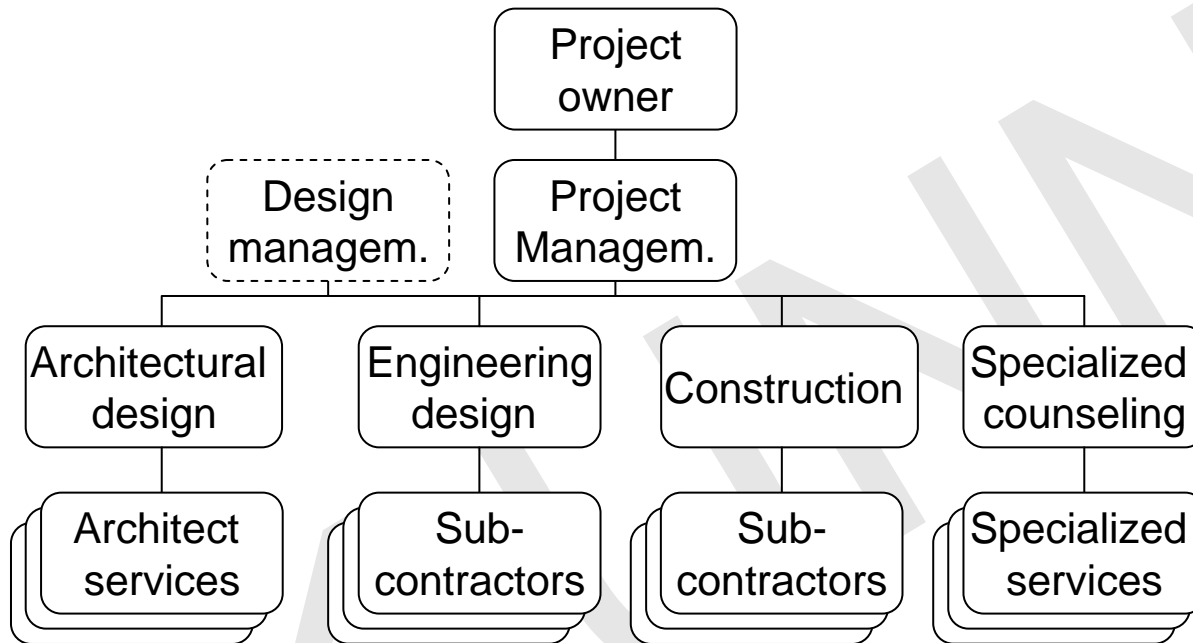
1. Improved specifications of standards and contracts
2. Program for development of buyer competence and subcontractor handling
3. Uniform control system in construction and maintenance
4. Sharing of experiences in regional road owner forums
5. Supplier development program and regular user surveys

## Example 1: Road maintenance, key learning



- Negative short-term effects due to underestimating practice and overestimating how well the standards captures practice
- Positive long term effects due to learning based on systematic explication and sharing of knowledge; a **reflective practice**
- Overall net gains so far

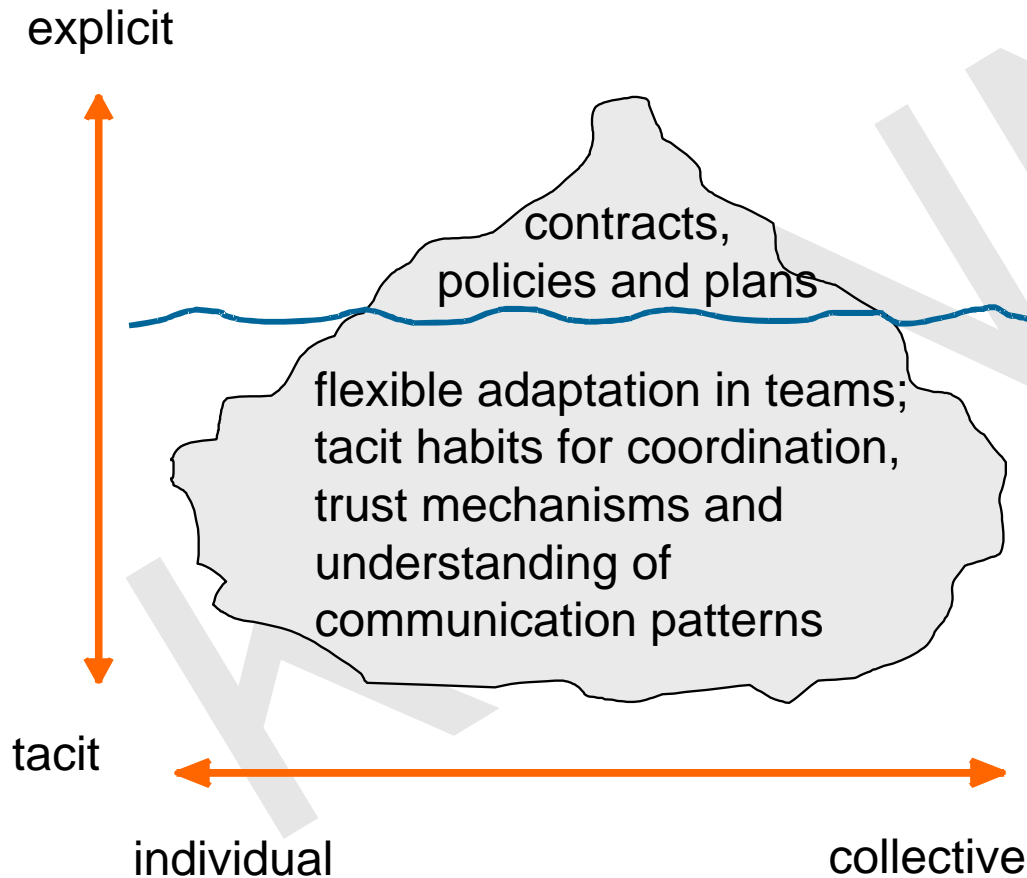
## Example 2: A large public construction project



***Fragmented buying pattern:***  
*High degree of contract subdivision, sometimes followed by forced joint contracts*

- 'At best difficult, at worst like a forced marriage!'
- 'Misunderstandings and conflicts are guaranteed: flexible adaptation based on tactical pricing and pushing change orders'
- 'We try to avoid this project owner – they have no respect for coordination competence and ruin our reputation'

## Example 2: Large construction project, key learning



- Underestimating practice with regards to collective knowledge in integration and flexible adaptation
  - Underestimating the value of reputation and trust in inter-organizational networks
- ⇒ Escalating costs for coordination, project management and change orders

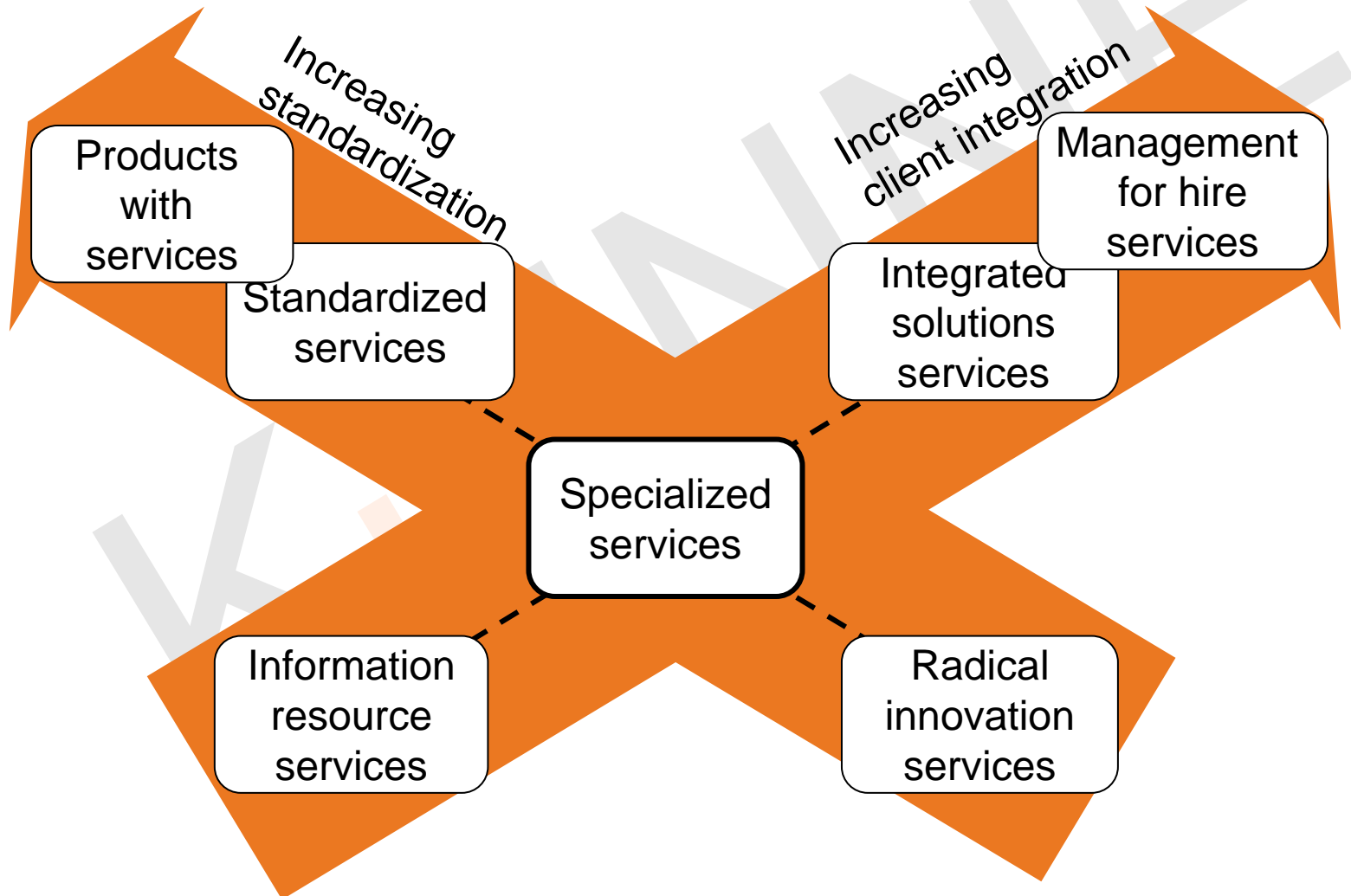
## Alternatives to opportunism

- Sustainable learning arrangements
- Incentives for innovation
- Improved contract management
- Trust

⇒ Understanding practice and the knowledge dynamics in practice

AND - service activities differ!

# Towards a typology of service activity sets



## Some reading resources

- Barthélemy J. 2003. The seven deadly sins of outsourcing, *Academy of Management Executive* 17 ( 2).
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- Ericksen J. and L. Dyer 2004: "Right from the start: Exploring the effects of early team events on subsequent project team development and performance." *Administrative Science Quarterly* 49: 438-471.
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- Kvålshaugen, R., A. Carlsen and R. Gjersvik. 2005. Archetypes of activity systems in professional service work. Paper presented at the 21st EGOS colloquium in Berlin.
- Pitsis T. S., S. R. Clegg, M. Marosszeky and T. Rura-Polley. 2004. Constructing the Olympic dream: A future perfect strategy of project management." *Organization Science* 14 (5): 574-590.
- ICAN - Innovative Collaborations, Alliances and Networks (University of technology, Sydney): <http://www.ican.uts.edu.au/>
- The Outsourcing Institute: <http://www.outsourcing.com/>
- Institute for Public Policy Research: <http://www.ippr.org.uk/>
- The Kunne research program: [www.kunne.no](http://www.kunne.no)