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Managing Risk in a Public-Private Social Services Network: A Strategy Process Approach

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ABSTRACT

This paper examines the phenomenon of risk management in the public-private network strategy process. The concept of risk in this study is defined as follows: events with a negative impact represent risks, which can prevent value creation or erode existing value. The study employs action research approach. Also, the study shows that different risks in public-private network strategy processes can be described and analyzed when the concepts of strategy process and risk are defined commensurably, with the concept of events, and when these events are given the form of visual maps.

1 Introduction

It is widely agreed that 21st century organizations are increasingly focusing on their so-called core competencies, while at the same time outsourcing operations outside their core business (e.g Parolini 1999, 43). As a result, organizations become intertwined with each other in numerous new ways, and this interconnectedness produces various kinds of business networks. The private and the public sector alike have been affected by the networked form of organizing work; cities and municipalities are more and more acting as service providers, whilst the actual production of these services is increasingly delivered by the private sector. The future social services system, at least in the case of the Nordic countries, can thus be best described as a multi-actor network, consisting of both private and public service providers. These networks, however, will largely be managed by the public sector. In line with this, it is evident that in the future public sector organizations' core competence will be managing different public-private partnerships, networks and alliances.

The upcoming networked environment will bring about new managerial challenges for both public and private organizations. Moreover, public sector managers will be in great need of new methods and tools for understanding, analyzing and essentially managing their organizations in the new era of networked business. In this paper, I address this challenge from strategy process viewpoint. The objective of this research is to enhance the understanding of risk management in the public-private network strategy processes.

2 Theoretical background

I position this study in the field of strategic management, in the subfield of strategy process research. As Chakravarthy and Doz (1992) suggest, strategy process research is interested on how managers can influence the quality of the organization's strategic position through the use of appropriate processes and administrative systems. As they further point out, it is useful to distinguish this subfield of strategic management from strategy content research, the latter being interested *what* the winning positions are, not *how* they come about (e.g. an de Ven and Poole 2005). One of the fundamental questions in the process subfield is how do organizations modify their administrative systems and decision processes. Furthermore, they claim that strategy process research should become more relevant to the practice. (Chakravarthy and Doz 1992.) Furthermore, as Pettigrew (1992) argues, the central questions in strategy process research concern the description, analysis and explanation of the processes at play. This work focuses on the description and analysis of a public-private social services network strategy process.

When studying change processes in general and strategy processes in particular, it is important to define what is meant by process (Van de Ven 1992). Van de Ven (ibid.) suggests three distinct conceptualizations of such processes: 1) processes that explain causal relationships, 2) processes that present categories of changing concepts and variables, and 3) processes as sequences of events describing how things evolve over time. From this viewpoint, this study could be classified into the third category, as a study that looks at sequences of events describing how things evolve over time – through which events a strategy is formulated and implemented. Also, Van de Ven (ibid.) suggests that theories concerning change processes can be understood

dialectically. By dialectic, he means that the change is understood in terms of "entities existing in a pluralistic world of colliding events, forces or contradictory values which competes each other for domination and control" (Van de Ven 1992). This understanding matches the process made up of actors with pluralistic and sometimes even contradictory (e.g. public sector buyer vs. for-profit seller of a service) interests.

Even though strategy process research is a well-advanced subfield of management studies, there has not bee too much attention or interest in public-private strategy processes. In a literature study conducted by Eisenhardt and Zbaracki (1992), the network element, as it is understood in this paper, was virtually nonexistent in strategy process research. A more recent text edited by Szulanski, Porac and Doz (2005) does not provide additional information on the subject either. Although issues concerning public sector strategies, public-private partnerships, business networks and single companies' strategy processes have been addressed extensively, it seems that a research gap exists; strategy processes in public-private network settings are rarely studied. This is a pity, since it seems clear that traditional strategic planning does not work very well in the networked environment. (Möller and Halinen 1999).

As is the case with change processes, it is useful to define what is meant by *networks*. According to Möller and Svahn (2006), networks could be conceived as organizational forms between a specific set of actors, "as intentional interorganizational structures which firms design deliberately for specific purposes." Furthermore, these networks are coalitions of interdependent organizations that are willing to coordinate some of their actions, yet remain autonomous decision-makers (Möller and Svahn, 2006). In addition, the organizations may sometimes "submit part of their activities and decision domains to centralized control in order to achieve benefits that are greater than any single member of the net can create independently" (Möller and Svahn, 2006). Möller and Svahn (ibid.) further outline a basic type of organizational network that is managed by a central organization and includes well-known actors, well-known and specified value activities, well-known business processes.

Derived from these characterizations, the public-private network strategy process is defined as *a series of events through which a particular strategy is formulated and implemented in and by a network that is managed by a public organization and includes other well-known actors, public and private*. The definition is somewhat broad and can include actions others than those traditionally linked with strategic decision making. Furthermore, strategy process researchers have recently been interested in the concept of risk management. In the preface to *Strategy Process; Shaping the Contours of the Field* (2003), Chakravarthy et al. state that one of the most important future research topics within the strategy process research is to find out how risk can be managed better in the strategy process. The definition of risk used in this study is in line with *objectives-based risk identification*, as outlined by Steinberg et al. (2004):

> *Events can have negative impact, positive impact, or both. Events with a negative impact represent risks, which can prevent value creation or erode existing value.*

The fact that risks are understood as events with a negative impact allows us to link the concepts of risk and strategy process. That is to say that risks within the strategy process can be

conceptualized as events that have a negative impact on the process and ultimately on its outcomes. The research question is: *how to describe and analyze risk in public-private network strategy process i.e. the series of events, with negative effect, through which strategies are formulated and implemented?*

3 Research methods

Chakravarthy and Doz (1992) suggest that strategy process research requires different, "more intrusive" methods than strategy content research. These methods would include questionnaires, surveys, field studies and especially action research methods (Chakravarthy and Doz 1992). Also, they recommend that field work that would be useful in many ways, especially in defining the processes in question and their boundaries. They also claim that in order to be relevant to practitioners, strategy process research should become more normative. Van de Ven's (1992) notion that studying strategy processes real-time would be beneficial could also be conceived as a call for participative action research approach. Furthermore, the action research paradigm is well-suited for qualitative forms of inquiry. At the core of qualitative research is generation of new concepts from data and further building taxonomies or typologies (Bryman and Burgess 1994 a). The benefits of such research are widely discussed. As Gephardt (2004) puts it, qualitative approach in management sciences is important because it can provide 1) results that are difficult to produce with quantitative studies, 2) descriptions of actual actions in real contexts, 3) understanding of meanings that the actors give to certain phenomenon and 4) examples of important management issues and concepts that, in turn, have the potential to enrich the field. This study aims to deal with Gephardt's fourth category and provide examples of what kinds of risks can be affiliated with a network-level strategy process.

In order to provide examples, a participatory action research approach is employed. Participatory action research refers to action-oriented research in which "ordinary people address common needs arising in their daily lives and, in the process, generate knowledge" (Park 2001). In this case, the ordinary people are people from different organizations in the network, from public, private and third sectors and from managerial and subordinate positions. The common, everyday needs addressed are those that deal with providing services to the elderly of the city of Hämeenlinna. The role of the researcher is to act in cooperation with the managers and other members of the organization and develop and research the practices along the way. In this sense, the research approach reminds the Innovation Action Research proposed by Kaplan (1998).

> *In innovation action research, scholars work with client organizations to enhance and test an emerging theory that has been proposed to improve organizational performance. Innovation action research is very much experimental, especially in the early stages of implementing the new theory, since both the scholars and the client organization want to learn more about the emerging theory and how it can successfully be implemented.* (Kaplan 1998.)

Kaplan (ibid.) further argues that one of the main objectives is to "modify and extend the emerging theory in light of new knowledge gained through experience." The power of such research, from the theoretical perspective, is in empirically finding a problem or need in the

existing practice that is not yet addressed in theory (Kaplan 1998). This kind of participative action research approach is obviously close to pure management consulting, and has to prove its scientific rigor. According to Kaplan (1998), Argyris (1997) has proposed that the propositions provided by such action research should be testable by methods that "meet the most robust standards of disconfirmation."

Furthermore, as Bryman and Burgess (1994 b) suggest, the grounded theory approach of qualitative studies has been beneficial in showing the possibility and significance of deriving theory (almost) purely from data. In this study, categories of risk are derived from interview data and in this respect this work owes to the rich tradition of the work of Glaser and Strauss (ibid.). Furthermore, as Chakravarthy and Doz (1992) point out, strategy process research has hypothesized new types of processes, although these have not been yet observed. In this study, a future strategy process is postulated based on the interviews.

4 The network in question

The network in question is the future eldercare strategy process of the city of Hämeenlinna (population 48'000) in southern Finland. Term *future* here refers to the fact that, at the time of the research, such a process was not in place but was being planned with the help of the researcher and his colleagues. The term *eldercare strategy*, in turn, means that this strategy would be a sub-strategy of the city-level strategy. Nonetheless, the grand objective of the upcoming strategy process was to provide a vision and a strategy that would address the well-being of the elderly citizens of the city. The social and health services, for the elderly and for other groups, are being provided by a rather vast network of both public and private organizations. The actors that would participate in the strategic planning were city council and city board, the section of social and health services (a part of public, municipal administration), the elder affairs council and a steering group made up of experts from across the municipal administration. In addition, local higher education schools and research institutes could be employed in conducting research and analyses. The actors that would eventually provide the needed eldercare services (implement the strategy) were units from the city administration (hospitals, day-care centers), private businesses (medical service providers, transport, day-care centers) and different types of NGOs (cultural and religious activities).

It should be noted that in the case of Hämeenlinna, the concept of eldercare services was defined rather broadly, encompassing activities from basic health care to cultural and physical well-being related activities. Furthermore, a number of planning and monitoring activities take place on top of the actual service production tier. It can also be noted that this service structure is something that has changed in Finland during the last decade or so. Previously, since the 1960s, the history of Finnish social services had resembled that of the Nordic welfare model, in which the public sector is fully responsible for the planning and execution of such services. Also, even though many different units of the public administration of the city are responsible for carrying out the new strategy process, the department of basic services would ultimately be responsible for running the process. The multiple levels of public management at the city level would mean additional burden to not only the execution and implementation of the strategy, but also to the planning phase of the process. Other strategies in the city had to be taken into account, as well as nation-wide policies considering eldercare had to be addressed. In short, a public administration

department of basic services was responsible for designing a strategy that would affect a number of actors at different levels.

5 Data collection and analysis

In terms of data collection, the interviewees came from different parts of the network, including service providers, public department managers and employees and local politicians. The data consists of 13 individual, open ended interviews. The interviewees were asked about 1) the purpose and desired content of the forthcoming strategy process, 2) which existent strategies should be considered in the new process, 3) what kind of knowledge is required in the process and 4) what is the role of implementation of the strategy. The interviews lasted about 1,5 hours each, and based on the interviews, the researchers constructed a visual process map of the public-private network strategy process (Figure 1). The fashion of visualizing processes draws from business process management and business process reengineering traditions (e.g. Rosemann 2006; Lin et al. 2002) and it seems that it has not been widely embraced by the strategy process community. However, in this study the visualization of a process was used as a qualitative analysis method, and the process map was constructed to depict the actors involved (horizontally, on left and right sides), focal actions to be taken by the actors (rectangle-shaped boxes) and actual documents produced (rectangles with wave-shape bottom lines) in the process. It can be argued that the process map is, at the same time, a form of qualitative analysis of a future process and a useful tool for the managers. However, evaluating the usefulness of the tool is out of the scope of this study. The analysis of the data produced a proposition of four distinct phases of the process. Understanding a process this way was not clear to the interviewees beforehand. Also, the phases were not deducted from previous theory. Rather, they could be conceived as propositions put forth by the researchers.

The concept of risk in the process was operationalized implicitly and before the actual map was drawn; the respondents in the interviews were asked what the actual and potential problems are in the eldercare in general. Based on the interview data, the problems were classified into five categories of risks: 1) imperfect knowledge of the customer, 2) lack of commitment, 3) too many strategies present, 4) indecisiveness and lack of formal responsibilities and 5) lack of implementation and measuring. While the data supports these categories, categorization alone rarely constitutes a new theory (Sutton and Staw 1995). However, when these categories are then "superposed" on the visual process map one is able to craft hypotheses on the relationships between the constructs 1 (type of risk identified) and 2 (phases of the process postulated). The testing of these hypotheses would then be a task of its own, but for the purposes of methodological rigor it can be argued that the plain generation of testable hypotheses from qualitative data would suffice (Kaplan 1998).

To summarize, the analysis illustrates several things. First, the analysis shows that different risks in public-private network strategy processes can be described and analyzed when the concepts of strategy process and risk are defined commensurably, with the concept of events, and when these events are given the form of visual maps. Also, although the risks that emerged from the data are specific to the given process, they illustrate that network strategy process-related risks come in

many forms and shapes. Furthermore, there are different types of risks and that they differ in regards who should be responsible in preventing them.

6 Discussion

As Gephardt (2004) puts it, qualitative approach in management sciences is important because it can provide 1) results that are difficult to produce with quantitative studies, 2) descriptions of actual actions in real contexts, 3) understanding of meanings that the actors give to certain phenomenon and 4) examples of important management issues and concepts that, in turn, have the potential to enrich the field. This research shows that qualitative research on public-private network strategy processes is able to capture these properties. The focus of this study has been on illustrating new issues and concepts that have potential to enrich the field of management research as well as management practices. From the practical viewpoint, the visualized process map, built in cooperation with the members of the network organizations, has the potential to act as a useful tool in managing a public-private network. The process depicted in the map is a theoretical one in the sense that it has not been observed in real-life but rather constructed from scratch. As Chakravarthy and Doz (1992) point out, strategy process research has previously hypothesized processes that have never been observed.

The theoretical contributions of this study are related to the introduction of the concepts derived from data. The role of data has been two-fold. First, risks were identified from the interviews. Second, based on the same interviews, a future process model was constructed. This enables the researcher to postulate hypotheses and propositions between risks and their further identification and management, as shown in table 1. Although such postulation and testing of hypotheses is out of the scope of this study, an example of such postulation for is shown in table 1. Also, the research illustrated how an action research approach could be employed in strategy process research. Although the consultation and development usually associated with the action research tradition was restricted to the construction of the visual map, one could argue that further enhancement of the map and the practices involved could be easily done and beneficial to the organization. Also, future research on public-private network strategy process could take into account Van de Ven's notion of dialectic change processes in which conflicting interests abound.

Type of risk identified in the interviews	**Crucial actor responsible for risk prevention (example of a hypothesis)**	**Crucial phase of the process (example of a hypothesis)**
Imperfect knowledge of the customer	Steering group	II
Lack of commitment	City council	I
Too many strategies	City board	-
Indecisiveness and lack of formal responsibilities	Section of social and health services	I; IV
Lack of implementation and measuring	Project group	IV

Table 1. Risks identified in the interviews

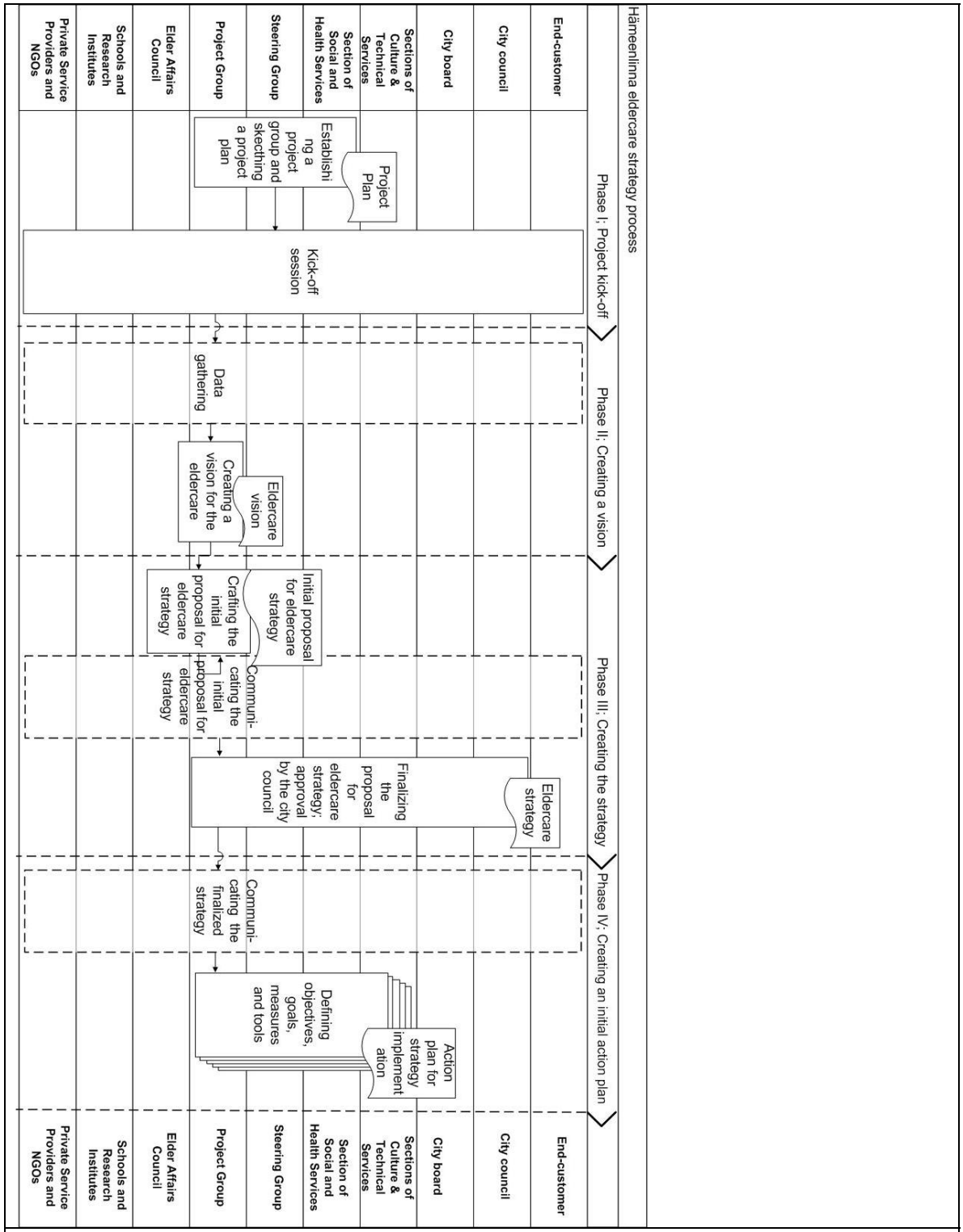

Figure 1. Hämeenlinna eldercare strategy process (Alin, Partanen, Ollila, previously unpublished)

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