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**TRENDS OF REFORM IN PORTUGUESE LOCAL GOVERNMENT:  
ALTERNATIVE MECHANISMS IN SERVICE DELIVERY**

**Open tracks:**

Local government management and local governance

Institutional details

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## 1. Introduction

The influence on local government organization and management of new public management practices promoted by national administrative reforms remains an issue of contention. On one hand, some authors argue that these reforms have produced similar results at both the central and local levels of government (John 2001; Sanderson 2001; Van Gramberg & Teicher 2000). Others consider that the political nature of elected mayors and their legitimacy derived from close proximity with voters has limited its impact at the local level (McLaughlin 2002). However, it is unquestionable that local governance has changed over the years, distancing itself from traditional management involving clearly defined hierarchical relations, long-lasting career systems, bureaucratic control mechanisms, and in-house production. The influence of Public Choice theory and the New Public Management reforms have transformed local governance, *albeit* the degree of change remains under dispute. These changes resulted in the adoption of alternative mechanisms to deliver public services based on the externalization of service delivery, either using market approaches or employing partnerships with nongovernmental organizations (NGOs).

The influence of New Public Management reforms brought about new service delivery arrangements replacing traditional bureaucratic in-house supply. Examples of these arrangements include: 1) CCT (*Compulsory Competitive Tendering*) replacing service delivery through in-house formal hierarchy with contracting (Fenwick, Shaw, & Foreman 1994); 2) *Best Value* relying on the comparison between delivery by the local government bureaucracy and alternative solutions provided by the market (Sanderson, 2001; Martin & Hartley 2000); 3) *Local Government Amendment* stressing the separation of municipal functions and highlighting the need for a corporate approach to commercial type functions (Wallis & Dollery 2001); and 4) *New Steering Model* (NSM) promoting functional decentralization and service autonomy to accomplish efficiency gains and quality in service delivery (Reichard 2003).

Currently, local governments are responsible for the provision of an ever growing number of public services, including education, social services, land use planning and management, water supply, wastewater management, solid waste collection and management, and the promotion of local economic development. The

mayoral system at the local level associated with the traditional administrative culture has produced resistance to the introduction and implementation of New Public Management reforms. In-house bureaucratic solutions still represent a large proportion of service delivery choices among Portuguese local governments. Nevertheless, the adoption of new governance mechanisms based on market competition and contracting out began increasing by the end of the 1990s. In recent years, we also witnessed the rise of alternatives to both market and hierarchy, through solutions relying on network partnerships and municipal cooperation. The large number of functions assumed by local governments as a result of central government delegation generated a substantial increase in the number and diversity of alternative governance mechanisms.

We analyse the choice between these governance mechanisms in light of current trends of administrative reform. Our central hypothesis follows Robert Stein's 1993 assertion that service characteristics influence the choice among governance mechanisms (hierarchy, market or network). We match three types of municipal services with these governance mechanisms and develop our hypotheses accordingly. First, we expect regulatory and monitoring activities to be provided by hierarchy type mechanisms (Lowi 1964; Peterson 1981; Barney 1999). Second, for activities involving the delivery of private goods and services (rival consumption and exclusion), local government officials will be inclined to use market-type mechanisms (Brown & Potoski 2003a; Ostrom & Ostrom 1977). Finally, social services, generally involving redistributive and social policies are most likely provided by network type mechanisms (Lamothe, Lamothe, & Feiock 2007; Brandsen & Pestoff 2006; Osbourne & McLaughlin 2004; Lowi 1964). The empirical analysis employs data collected from a sample of 102 Portuguese local governments between February and October 2008.

## **2. Service Characteristics, Transaction Costs, and Sector Choice**

The idea that local government officials choose service delivery mechanisms to match the specific characteristics of the services to be provided has been under scrutiny for some time in the empirical literature (Stein 1993; Feiock, Clingermayer, and Dasse 2003). Much of the literature employs a transaction costs framework identifying asset specificity, service measurability, and the frequency of transactions as major factors influencing sector choice decisions in providing municipal services (Brown and Potoski

2003a; 2003b; Lamothe, Lamothe, and Feiock 2008). Other authors organize municipal services according to existing policy typologies to derive testable hypotheses regarding service delivery sector choice (Feiock, Clingermayer, and Dasse 2003). Our paper contributes to these streams of literature by providing a detailed analysis of local official's choices regarding all services provided by Portuguese local governments.

### *Transaction Costs Framework and Service Delivery Choices*

Much of the literature employs a transaction costs framework (TCF) to argue that sector choice is largely determined by the transaction costs faced by local officials when choosing among the available options. According to the TCF, both production costs and transaction costs have to be considered when making decisions on sector choice for service delivery. Transaction costs result from the negotiation, monitoring, and enforcement of contracts and include the information costs of selecting the provider, the costs of writing the agreement to include appropriate standards of efficiency and quality of performance, and monitoring and enforcing that same agreement (Brown and Potoski 2003a; Coase 1937; Williamson 1975). The choice among the available service providers is determined by the ability to minimize transaction costs (Brown and Potoski 2003a; Nelson 1997; Ferris & Graddy 1997; Dollery 2001; Feiock, Clingermayer, Shrestha and Dasse 2007). Moreover, local elected executives trade-off transaction costs of in-house production with agency costs of delegation to external providers when deciding how to deliver local public services. These trade-offs manifest themselves politically in terms of electoral benefits and costs, so that when externalization is more attractive from an electoral standpoint, direct provision will be less appealing and vice versa.

The TCF literature argues that transaction costs increase as a result of information asymmetry between contracting parties caused by service characteristics and environmental uncertainty (Brown and Potoski 2003; Williamson 1975). Asset specificity increases transaction costs substantially because goods and services with this characteristic cannot be easily redeployed for alternative uses. Water and gas pipelines, garbage trucks, and medical technology are examples of physical asset specificity, since these equipments have very limited uses in other alternatives. Highly skilled professionals such as space engineers, nuclear physicists, medical doctors, and even

university professors (!) display high human asset specificity. They usually involve extensive training in highly specialized tasks that are difficult to deploy in alternative uses.

Service measurability can also affect the level of transaction costs because it is less problematic to write agreements for tangible goods and services. In contrast, services involving highly complex systems of delivery or difficult monitoring processes significantly raise transaction costs.

The environment in which service delivery takes place can also adversely affect the size of transaction costs. The frequency of transactions between contracting parties, local government political and/or administrative instability, and the financial health of the municipality can adversely impact the level of transaction costs and the choices regarding service delivery sectors. Feiock, Clingermayer and Dasse (2003) employ a multinomial logit model to explain the choice between direct service provision, contracting with other government, contracting out to a non-profit organization, and contracting out to the private sector. The authors find that executive turnover influences contracting out decisions with private sector providers, by affecting the municipality's ability to negotiate contracts, make credible commitments to suppliers, and sustain and enforce contracts.

Asset specificity and service complexity involve large transaction costs and this can hinder contracting out to private vendors, due to possible opportunistic behaviour of the agents. However, in order to take advantage of efficiency gains associated with highly specialized private providers, local officials can opt for partnerships with the not-for-profit sector (Lamothe, Lamothe, and Feiock 2007), although in-house service provision is still a prevailing option, especially because of strong inertial effects (Lamothe, Lamothe, and Feiock 2008).

### *Policy Typologies and Service Delivery Choices*

A much less explored avenue of research on service characteristics employs policy typologies to classify public goods and services in specific groups and uses each cell to develop testable hypotheses regarding the link between service characteristics and governance mechanisms.

The aspiration to classify public policies in a “perfect” typology has been a concern of scholarly work in political science for decades (Lowi 1964; Ostrom and Ostrom 1977; Peterson 1981). Typologies are useful because they allow the organization of a complex reality with simple, clear-cut criteria. Even if policies are not amenable to mutually exclusive categorization, their differences can be better understood with these efforts at classification. In addition, typologies allow the development of theoretical hypotheses that can be subjected to empirical testing.

The literature investigating local government service delivery has sought to connect different typologies of goods and services with the choice of institutional arrangements for service delivery. The most widely accepted classification of goods and services employs the criteria of rivalry in consumption and excludability in ownership and use to link four types of goods and services with the institutional arrangements employed to supply them (Ostrom and Ostrom 1977; Stein 1993) (see table I). Rivalry in consumption means that if one person consumes the good or service someone else cannot use it. Excludability in ownership and consumption implies that individuals can only access the good or service if they pay for access to the person(s) who control(s) it.

According to this typology of goods and services, the market allocates private goods efficiently, so that local governments concerned with efficiency goals would prefer market mechanisms to supply these goods and services. In the opposite extreme, the market cannot provide collective goods, since this will result in underprovision due to free rider problems. In general, collective goods require provision through some form of direct service arrangement<sup>1</sup>. Both toll goods, also known as marketable public goods, and common pool resources entail some type of hybrid solution. Empirical research indicates that local governments behave in accordance with the hypotheses suggested by the theory. Stein (1993) finds that collective goods are primarily provided using direct modes of service arrangement, whereas private goods and services are usually delivered through contracting arrangements. Feiock, Clingermayer, and Dasse (2003) conclude that common property resource goods and services are more likely contracted out to other governments and to non-profit organizations and less likely contracted out to for-profit firms.

**Table 1. Policy Typology (Rivalry vs. Exclusion)**

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<sup>1</sup> For the exceptions see Olson (1965).

	<b>Rival</b>	<b>Nonrival</b>
<b>Excludable</b>	Private Goods (Market)	Toll Goods (Hybrid Solutions)
<b>Nonexcludable</b>	Common Pool Resources (Hybrid Solutions)	Collective Goods (Public Bureaucracies)

Adapted from Ostrom and Ostrom (1977); Stein (1993); Weimer and Vining (1999).

Paul Peterson's classification of goods in developmental, allocational, and redistributive has also been linked with institutional arrangements of service provision (Peterson 1981; Stein 1993). The work by Robert Stein finds that a large majority of developmental services is provided directly by the municipal government. The provision of allocational services has increased substantially over the period under analysis, whereas redistributive services are largely provided through non-direct institutional arrangements (Stein, 1993: 85).

The fact that municipal governments display specific patterns in service privatization is not new. Solid waste collection is by far one of the most frequently mentioned as amenable to private contracting (Savas 1982; Morgan 1989). A survey of America's 66 largest cities in 1995 indicated that vehicle towing, solid waste collection, building security, street repair and ambulance services were the most privatized services in the US (Dilger, Moffett, and Struyk 1997). These services are particularly well-suited for privatization, namely because market competition can generate significant cost savings and production efficiencies derived from specialized providers (Morgan 1989).

This paper expands on the policy typology tradition by developing and testing a set of hypotheses linking the nature of activities with the governance mechanisms of service delivery adopted by local governments in Portugal.

### **3. Local Service Delivery in the Portuguese Context**

Local government in Portugal has a long tradition and its main units, called *Concelhos* (municipalities), have existed with significant autonomy since the Middle Age. Until 1820, municipalities had autonomy to manage the council business in what concerns land, commerce transportation regulations and street markets, road construction and maintenance, local income and price taxes, police power, among others (Manique 1989). Over time, centralization and state power turned the country into a

highly centralized administrative state (Livermore 1976). It was in the 19<sup>th</sup> century that municipal autonomy was suspended. At the time, the liberal regime attempted to rationalize the administrative system and to control municipalities, by embracing the French Napoleonic structure of administration. The debate about the territorial division and organization was inspired by the French administration.

After a period of centralization and decentralization tendencies, which reflected the tensions between liberals and absolutists, the result was the reinforcement of centralization. The Napoleonic spirit prevailed and, like other southern countries, Portugal introduced the administrative code and the prefectural system headed by a *Governador Civil*. The *Governador Civil* was useful to maintain the constitutional system from internal subversion and to sustain the unity of the state. The Governor was the co-coordinator of all central government functions and the hierarchical superior of all other field agents, supervising, inspecting and controlling local governments. The administrative structure reinforced centralization and severely constrained the power of municipalities as well as their financial autonomy. Municipalities became progressively dependent and controlled by the central government. The rule of law, the appointment of mayors by national government and the characteristics of the Napoleonic model transformed municipalities in mere agencies of the central government. This represents an historical rupture where rationalization emphasizes the administrative dimension rather than local autonomy.

The advent of the republican regime in the early years of 20<sup>th</sup> century and particularly the authoritarian administration of the “Estado Novo” reinforced the centralist pattern of Portuguese Napoleonic institutions. According to Pereira (1992:124) “deep state centralism, besides a clear Jacobinism in the central political and administrative organization, and a significant weight of the bureaucracy” were the main elements of the Portuguese political administrative system. Hence, the republican regime did not grant autonomy to municipalities and severely constrained its financial autonomy (Oliveira 1996). Later on, the dictatorial regime of the ‘Estado Novo’ (1926-1974) implemented a political administrative system highly centralized and based on the rule of the law and all sort of bureaucratic procedures. In this period the centralized pattern of Portuguese Public Administration was reinforced (Araújo 1999). The regime developed a corporative and autocratic emphasis, strengthened the importance of central government bureaucracy, and introduced institutional uniformity.

During the era of the dictatorship, Governors had strong and authoritarian powers in controlling local government and public service delivery. The country was ruled by an autocratic regime which developed an extremely formal and hierarchical administrative system. Mayors were appointed by the central government and hierarchically subordinated to the Governors of their district. The Governor had the power to dissolve local executives if they proved to have behaved illegally, failed to fulfil their administrative tasks or refused to carry out decisions made at higher levels. Furthermore, Governors had the power to scrutinize the municipal executive (*Câmara Municipal*), local public services and even to control civic associations and corporations. They also had police powers and were responsible for the maintenance of public order (CAREAT 1998). The authoritarian role of the Governador Civil at the district level was supported by the highly hierarchical structure of the overall administrative system.

Although municipalities had been formally granted powers to impose taxes, pass local ordinances, grant licenses, and set the number and salaries of municipal employees these powers were hardly implemented. In practice their competencies were severely restricted to the essential ones: to manage municipal property, local development, local service delivery, public health, and a few more. Moreover, 'most communication between central and local government took the form of directives and administrative decrees which preempted local initiatives and which municipalities were obliged to carry out and enforce' (Opello 1983).

Concerning the financial dimension, municipalities have two sources of revenues. First, revenues derived from small fines and from direct taxes on agricultural and industrial production and on business within the municipalities, as well from taxes on buildings permits and street markets. A second set of revenue sources granted by the central government for specific projects beyond the financial capability of the municipality. Municipal financial sources often depended on central government's casuistic decisions, in a strong discretionary process using subsidies, participation in financing projects, and supporting local deficits (Camões 2006: 103).

Local service delivery followed the characteristics of central government service provision in a mimetic process emphasizing direct delivery. Due to the limited functions they performed, municipal governments had only a Secretary and specialized services. They had no autonomy to set up their own organizational structure. The structure was

defined by law approved by the national government and was uniform to all municipalities. The only exceptions were the large cities of Lisbon and Porto.

Services responsible to prepare decisions and to implement them were structured through hierarchical structures, the so called *Serviços Municipais*, which were divided in sections and repartitions (Oliveira 2001:128). Lisbon and Porto were allowed to create Directions of Services, Repartitions, Divisions and Sections.

For those services of economic and industrial nature, such as water distribution, electricity, sewage, garbage collection, and public transportation, local governments were allowed to create *Serviços Municipalizados*, under certain conditions established by law (Pereira and Almeida 1985: 214). These services, approved by the Municipal Assembly (deliberative body) had some financial autonomy and an Executive Council, but stopped short of having corporate-like status, since the sole owner was the municipality and they remained integrated in the municipality (Caetano 1982).

Therefore, during the dictatorship, municipalities had limited competencies and operated as an extension of the national government. For a period of almost fifty years, municipalities essentially played a role as units of administration of the state (Opello 1983), acting as administrative agencies organizing its activities in-house according to a single structure model. Municipalities developed a bureaucratic administrative structure and direct management of local service delivery.

#### *Democracy and the challenge for local service delivery*

The democratic regime introduced in 1974 and the new Portuguese Constitution of 1976 re-established democratic local power, new service delivery roles, and financial and administrative autonomy. The Law of Municipalities (1977) established general functional areas such as patrimony administration, economic development, local service delivery, water and wastewater management, public health, education, culture, sports and leisure, emergency management, and public investment in infrastructures.

The new regime and the newly acquired functions became a great challenge, particularly because municipalities were not technically prepared for such competencies, not only because of their weak organizational structures, but also due to the lack of highly skilled personnel. To some extent, this gap was filled by the establishment of local government inter-municipal cooperation through technical offices

called *Gabinetes de Apoio Técnico* (Technical Support Offices), which gave technical advice on inter-municipal projects to improve local infrastructure. This form of cooperation between local authorities encouraged joint management of local facilities and energy resources. At the time there was an acute lack of technical, administrative and managerial capacity in municipalities (Pereira 1993) and local service delivery followed the traditional in-house hierarchical approach.

It was only in the mid1980's that the law (Decree-law 116/84) allowed organizational autonomy to municipalities. The only limitation to organizational autonomy was personnel costs. The possibility of having new job vacancies allowed the development of the organizational structure to tackle new functional areas. However, the trend in service delivery remains highly hierarchical. Basically, the *Serviços Municipais* and *Serviços Municipalizados* remained the way to organize and deliver local services through in-house mechanisms.

In spite of these trends, the size of local government did not increase immediately after the Democratic Revolution. The number of civil servants working in the public sector is evidence of the dimension of municipalities compared to the central government. Table 2 shows the distribution of civil servants among central and local government.

**Table 2. Distribution of Civil Servants Across Levels of Government**

Year	Central Administration	%	Local Government	%	Total
1935	25 588	-	n.a.	-	n.a
1968	155 213	78.90%	41 542	21.10%	196 755
1979	314 029	84.30%	58 266	15.70%	372 295
1983	359 329	82.45%	76 466	17.55%	435 795
1986	384 448	82.80%	79 873	17.20%	464 321
1988	405 034	83.45%	80 334	16.55%	485 368
1991	418 868	82.20%	90 864	17.80%	509 732
2005	578 407	77.34%	169 473	22.66%	747 880

SOURCE: CITRA, 1987; DGAEP, 2008; DGAP, 1992

Since 2005 data includes the autonomous regions of Madeira and Azores, military and security forces, magistrate and fire man.

The data shows the centralized nature of Portuguese Public Administration where, after thirty years of democracy, local government represents a little over 20% of the total number of civil servants. In what concerns the financial dimension, 'the average financial dependency of local governments – transfers from the national

government to municipalities – is 45.5 per cent, but it ranges from 10 to 90 per cent, with a strong negative correlation with the level of economic development of the municipality’ (Tavares and Camões 2007).

The new functional competencies and the political, social and economic development pressured the emergence of new forms of local service delivery. However, NPM ideas and new organizational forms are late comers in the Portuguese local government. The continental juridical tradition of administrative reform emphasizes changes in legislation not managerial changes (Rodrigues and Araújo 2006). According to Tavares and Camões, ‘Political culture and history contribute to explain this resistance to market provision and the predominance of state oriented alternatives’ (2007: 537).

Devolution of power to local governments, the growth of municipal activities, internal specialization, and the diversification of citizen preferences produced internal departmentalization. Later, the need for more flexible and efficient organizational forms led to the creation of single purpose organizations in the middle of the 1990s. Municipal corporations are constituted with capital from other municipalities as well as private investors. According to Tavares e Camões (2007) the number of single purpose organizations increased in a short period of five years (1998-2003) to over 100, and about 87% of municipalities have transferred services to municipal corporations.

The influence of new modes of service delivery goes beyond municipal corporations. The legislation approved by the national government opened the opportunity for innovative ways to structure local service delivery through contracting out and network partnerships. The use of market type mechanisms and interorganizational forms of joint production is now changing the *modus operandi* of municipalities.

As soon as municipalities were allowed to explore alternative ways to deliver services, a dynamic process began to improve efficiency and service quality, frequently using benchmarking processes. The range of organizational configurations includes traditional, hierarchical type arrangements, market solutions, and network partnerships. Table 3 presents the whole gamut of organizational configurations and their distinguishing characteristics.

**Table 3. Characteristics of Local Government Alternatives**

<b>Organizational Configuration</b>	<b>Degree of direct control</b>	<b>Degree of competition</b>	<b>Degree of inter-organizational cooperation</b>	<b>Governance Mechanism</b>
<b>Municipal Services</b>	High	None	None	HTM
<b>Municipalized Services</b>	High	None	Moderate, depending on the number of participants	HTM
<b>Municipal Enterprises</b>	High but indirect	None	Moderate, depending on the number of participants	HTM
<b>Inter-municipal Enterprises</b>	High – indirect and shared	None	Moderate, depending on the number of participants	NTM
<b>Municipal Commercial Societies</b>	Moderate	None	Moderate, depending on the number of participants	NTM
<b>Public Commercial Societies</b>	Moderate	None	Moderate, depending on the number of participants	NTM
<b>Mixed Commercial Societies</b>	Very Low	High	Moderate, depending on the number of participants	NTM
<b>Contracting-out</b>	Very Low	High	Low	MTM
<b>Franchise</b>	Very Low	High	Low	MTM
<b>Partnerships</b>	Low	Medium	High	NTM
<b>Local Government Associations</b>	Moderate	Low	High	NTM
<b>Metropolitan Associations</b>	Moderate	Low	High	NTM

HTM – Hierarchy Type Mechanism  
 MTM – Market Type Mechanism  
 NTM – Network Type Mechanism

This broad set of organizational alternatives raises an important research question. Since local authorities have a long standing tradition of organizing and delivering services through in-house bureaucracies, how far municipalities have they moved away from the traditional bureaucratic approach to service delivery? Given that hierarchical delivery mechanisms have predominated until the 1990s, this article provides a snapshot of what has changed since the introduction of the new forms of governance. Local government service delivery in Portugal provides a natural experiment of the choices of local officials regarding the delivery of specific services through the three types of mechanisms: hierarchy, market, and networks. In other words, it allows an empirical test of hypotheses regarding choices of externalization of local services.

#### 4. Hypotheses

In the previous section, we discussed the different alternatives available to local governments in order to deliver public services. The long-standing Portuguese local government tradition to adopt direct provision is currently being challenged by other alternatives. For some time now the academic community dedicated part of their research to the analysis of alternative governance mechanisms, particularly to private and nonprofit organizations as alternative governance mechanisms to service delivery (Frant 1996).

The primary goal of this paper is to establish a relationship between the nature of the activities provided by local governments and the mechanisms of governance used. In other words, we seek to understand how the nature and service characteristics affect the choice of governance mechanisms (Stein 1993). Thus, based upon prior work in the tradition of policy typologies, we discuss a set of three different hypotheses, each aiming to test the relationship between the nature of activities and a specific governance mechanism.

Our first hypothesis derives from research by Lowi (1964; 1972). The author identifies regulatory and supervisory activities as leading to the use of hierarchical mechanisms of policy implementation. This happens due to their degree of coerciveness to citizens, since these kinds of activities represent a limitation of free will. We also argue that, in line with the policy typology elaborated by Peterson (1981), development and/or distribution activities are typically delivered through hierarchical governance mechanisms. Finally, according to Barney (1999), hierarchy is most appropriate to activities closely linked to the sovereignty functions of the State (in this case local governments).

Hypothesis 1a ( $H_{1a}$ ): Regulatory and supervisory policies are provided by hierarchical mechanisms.

Hypothesis 1b ( $H_{1b}$ ): Policies involving development and distribution activities are provided by hierarchical mechanisms.

Our second hypothesis concerns the introduction of market mechanisms in public administration, which changed the concept of public service and the nature of the

agents responsible for delivering public services. Using rivalry in consumption and the possibility of exclusion as two dimensions of analysis, Ostrom e Ostrom (1977) propose a typology of goods and services that help predict preferences in service delivery by public or private agents (Levacic 1991; Stein 1993). Exclusion refers to the capacity and ability of the agent responsible for service delivery to limit access or consumption through price mechanisms. In its absence, any individual can free ride on the production of any good or service, thus making market supply unattractive to private for-profit agents. The concept of rivalry is the marginal variation in the utility that each consumer gets, when another person consumes the same service. If utility is unaffected, collective consumption is possible. Otherwise, consumption is individualized. Thus, private agents are particularly motivated to provide services that simultaneously require a payment for their use and display rivalry in consumption. In contrast, services where the amount paid is not directly related to what is being consumed, and where exclusion is problematic and rivalry in consumption is absent, are usually provided directly by local government employees.

According to Ostrom and Ostrom (1977), market mechanisms are more feasible in situations where provision and production units can be easily separated. The collective units would be responsible for the provision of public goods and services, that is, responsible for planning and deciding what goods and services to provide, financing production (in whole or in part), and monitoring the levels of quality and citizen satisfaction. This role would be reserved to public agents, given their ability to collect taxes, and regulate and enforce standards of conduct of other agents. Private market units would be responsible for the effective production and distribution of goods and services that governing bodies decided to provide.

Markets with multiple producers should be considered a feasible alternative to hierarchical mechanisms (Brown and Potoski 2003, 2005; Brown, Potoski, and Van Slyke 2006). Thus, in situations where there is a possibility and ease in determining unit costs, identifying the consumer, and promoting competition between producers, it is expected a prevalence of market solutions (McGuinness 1991).

Hypothesis 2 (H<sub>2</sub>): Activities involving rivalry in consumption and the possibility of exclusion are provided by market mechanisms.

Our third hypothesis is, again, based on the Peterson (1981) typology. The activities most appropriate to governance by networks are redistributive ones, that is, activities with concentrated benefits and diffused costs. The same is claimed for social services at the local government sphere (Lamothe, Lamothe, and Feiock 2007; Brandsen and Pestoff 2006; Osbourne and McLaughlin 2004).

The market stereotype is usually associated with the individualistic spirit, pure economic rationality, and lack of cooperation between agents (Powell 1990). As such, in a competitive environment where each individual develops strategies that involve the failure of competitors, there is no place for interaction, integration, and social cohesion (Tenbensen 2005). Although the market presents itself as an alternative with the advantage of offering choice, efficiency, flexibility, and innovation, it can be inadequate to social services delivery due to the absence of local competitive markets and public management capacity (Van Slyke 2003, 2007; Lowndes and Skelcher 1998). However, despite this fact, Lamothe, Lamothe and Feiock (2007) argue that activities involving qualified labour-intensive resources, such as basic health care, mental health, hospitals, day centres, centres, are best performed by private actors.

The decision maker must trade-off between efficiency gains and the difficulty to control private agent actions. To solve this dilemma, the solution of building networks with non-profit organizations seems the most appropriate. Because these organizations rely on volunteering work and enjoy tax-exemptions due to their non-profit status, they tend to have similar goals and missions when compared to public agents, thus avoiding the problem of moral hazard (Lamothe, Lamothe, and Feiock 2007; Brown, Potoski, and Van Slyke 2006).

Hypothesis 3 (H<sub>3</sub>): Activities that have a redistributive and social nature and require large initial investments are provided by network mechanisms.

## **5. Organizational Configurations and Governance Mechanisms**

In Portugal, national legislation exhaustively enumerates all tasks assigned to municipalities. The functions and powers of Portuguese local governments are defined in specific laws in a rather generic list. This fact forced us to convert it into a more explicit one. We decided to submit a rating of 42 municipal activities classified in 5 dimensions using research by Nelson (1997), Ferris and Graddy (1991, 1986), Feiock,

Clingermayer and Dasse (2003), and Brown and Potoski (2003a, 2005), combined with current Portuguese legislation.

In order to test our hypotheses, we divided the list of 42 activities into three separate groups. The first group integrates local business development activities, distribution, regulatory, and supervisory functions. The second group is composed by activities characterized by rivalry in consumption and the possibility of exclusion. The last group includes activities with a redistributive or social nature as well as those requiring a high initial investment.

**Table 4. Municipal Services**

Group 1	Group 2	Group 3
1. Audit and Licensing of Economic Activities; 2. Urban Management and Planning; 3. Management of Urban Mobility; 4. Municipal Police; 5. Veterinary Services 6. Tourism Promotion; 7. Urban Management and Rehabilitation; 8. Foreign Cooperation; 9. Fire Department and Civil Protection; 10. Graveyard Maintenance and Administration; 11. Kennel Maintenance and Administration; 12. Swimming- Pool Maintenance and Management; 13. School Maintenance; 14. Stadium Maintenance and Management; 15. Maintenance and administration of sports halls 16. Markets Suppliers Maintenance and Administration; 17. Industrial Park Maintenance and Management; 18. Department of Urban Hygiene;	1. Public Transportation; 2. Water supply; 3. Distribution of Electrical Power (Low-voltage); 4. Building Safety; 5. Building Maintenance; 6. Road Conservation 7. Solid Waste Collection; 8. Maintenance of Public Parks and Gardens; 9. Maintenance and Administration of Parking Facilities; 10. Parking Management 11. Canteen Maintenance and Administration; 12. School Transportation Services;	1. Health Care and Medical Assistance; 2. Elderly Service; 3. Poverty and Social Exclusion Combat Program; 4. Social Housing; 5. Kindergarten Maintenance and Administration; 6. Youth Support Services; 7. Museum Maintenance and Management; 8. Library Maintenance and Management; 9. Theater Maintenance and Management; 10. Aviation Infrastructure Maintenance and Administration; 11. Solid Waste Treatment; 12. Wastewater Treatment;

In order to better suit our investigation purposes, we linked each of the twelve alternative organizational configurations employed by Portuguese local governments with each major governance mechanism. The twelve organizational configurations were classified into Hierarchic Type Mechanisms (HTM), Market Type Mechanisms (MTM), or Network Type Mechanisms (TMR), according to:

1. Degree of direct control – indicates the control exercised by the municipal executive. It is more direct when the executive makes use of its hierarchical powers to command and control production;

2. Degree of competition – indicates the competitive environment in which an agent is involved in the delivery of public services;
3. Degree of inter-organizational cooperation – indicates the degree of shared resources, information, and risks so as to generate a cohesive action for the delivery of public services.

Table 3 displays the organizational configurations according to the degree of direct control, competition, and inter-organizational cooperation and links them with the more general governance mechanisms. Both in municipal and in municipalized services there is a strong presence of hierarchical control of local executive bodies, distant from any competition and cooperation with any other organization. In both cases, the mayor is directly responsible for the satisfaction of citizens' needs. Since 1998, specific legislation allowed the creation of municipal corporations (*Empresas Municipais*), responsible for the provision of local services. Municipal corporations are agencies with juridical personality and administrative, financial, and patrimonial autonomy. They are regulated by the law of Public Enterprises and by the commercial society's code. Municipal corporations are created with a similar goal of those in the private sector, but with the mission of developing activities under the monitoring of each local government. Municipal corporations have a higher degree of autonomy than municipal and municipalized services. However, local government superintendence power allows them a control similar to the one obtained with hierarchical power. In inter-municipal corporations we have a similar scenario, except that this control is shared with other local governments.

In commercial societies (enterprises) the level of control and competition depends very much on the shareholders. So, commercial societies with the majority of private capital have more competition and less direct control from local governments than the ones where municipalities hold the majority of shares.

The relationships between local governments and private agents (contracting-out or franchising) are characterized by the absence of a hierarchical relation between the principal and the agent. The nature of the relationship is based upon the contract which relies on duties and obligations of the contracting parties. The typical power of direction (issue orders, revoke decisions, and punish) has limited effect in terms of the contract.

Finally, in network partnerships there is a high coordination of interests and a high spirit of mutual help among local governments and third sector agents. In

metropolitan associations and municipal associations, municipal control is less significant. These configurations are characterized by high levels of cooperation, mostly due to the voluntary associative nature of the organizational agreement.

## 6. Data Analysis and Findings

It is our goal to analyze the use of governance mechanisms by Portuguese municipalities and determine if they are chosen as a consequence of the nature of activities. During the period between April and October 2008, we sent a survey to all 278 Portuguese municipalities and received 101 answers, corresponding to 37,4% of the total.

For the three hypotheses presented, we compare the mean, standard deviation, maximum and minimum values of the three groups of municipal activities, previously identified. In order to test our first hypothesis, we expect to observe that, in the group composed of local economic development, distribution, regulatory and supervisory activities, the use of hierarchical governance mechanisms should be much higher than the other mechanisms. In our second hypothesis, we expect that activities that meet the characteristics of the possibility of exclusion and rivalry in consumption, the average of the market governance mechanism is superior to the others. Finally, in our third hypothesis, we expect that activities with a redistributive or social nature or requiring a high initial investment display a higher presence of network mechanisms of governance. Table 5 presents the overall results of our survey for each local government activity.

**Table 5. Overall Survey Responses**

Activities	Governance Mechanism		
	Hierarchic	Market	Network
<b>Audit and Licensing of Economic Activities;</b>	96,55%	1,15%	2,30%
<b>Urban Management and Planning;</b>	96,94%	2,04%	1,02%
<b>Management of Urban Mobility</b>	97,56%	1,22%	1,22%
<b>Municipal Police</b>	94,12%	0,00%	5,88%
<b>Veterinary Services</b>	91,86	5,81%	2,33%
<b>Tourism Promotion</b>	92,39%	1,09%	6,52%
<b>Urban Management and Rehabilitation</b>	95,89%	0,00%	4,11%
<b>Foreign Cooperation</b>	92,86%	0,00%	7,14%
<b>Aviation Infrastructure Maintenance and Administration;</b>	75,00%	16,67%	8,33%
<b>Markets Suppliers Maintenance and Administration;</b>	82,35%	2,94%	14,71%
<b>Industrial Park Maintenance and Management;</b>	88,64%	9,09%	2,27%
<b>Building Safety;</b>	65,67%	34,33%	0,00%
<b>Building Maintenance;</b>	84,51%	15,49%	0,00%
<b>Distribution of Electric Power (Low-voltage);</b>	6,52%	69,57%	23,19%

<b>Road Conservation</b>	65,88%	34,12%	0,00%
<b>Collective Service Transports;</b>	40,43%	57,45%	2,13%
<b>Solid Waste Collection</b>	48,91%	23,91%	27,17%
<b>Solid Waste Treatment</b>	11,11%	21,11%	67,78%
<b>Water supply</b>	71,58%	12,63%	15,79%
<b>Wastewater Treatment</b>	49,11%	18,82%	31,76%
<b>Fire Department and Civil Protection;</b>	53,57%	1,79%	44,64%
<b>Graveyard Maintenance and Administration;</b>	97,75%	2,25%	0,00%
<b>Parking Facilities Maintenance and Administration</b>	82,46%	17,45%	0,00%
<b>Maintenance and Parking Management</b>	71,43%	28,57%	0,00%
<b>Maintenance and Administration Canteens</b>	72,50%	20,00%	7,50%
<b>Kennel Maintenance and Administration;</b>	71,19%	1,69%	27,12%
<b>Public Parks and Gardens Maintenance</b>	84,78%	13,04%	2,17%
<b>Health Care and Medical Assistance</b>	22,86%	37,14%	40,00%
<b>Elderly Services</b>	55,88%	4,41%	39,71%
<b>Poverty and Social Exclusion Combat Program</b>	72,15%	0,00%	27,85%
<b>Department of Urban Hygiene</b>	87,34%	7,59%	5,06%
<b>Social Housing;</b>	94,20%	0,00%	5,80%
<b>School Transport Services</b>	65,17%	31,46%	3,37%
<b>Kindergarten Maintenance and Administration</b>	93,24%	1,35%	5,41%
<b>School Maintenance</b>	96,34%	2,44%	1,22%
<b>Youth Support Services</b>	78,26%	6,52%	15,22%
<b>Swimming- Pool Maintenance and Management</b>	93,26%	2,25%	4,49%
<b>Stadium Maintenance and Management</b>	83,87%	6,45%	9,68%
<b>Maintenance and administration of sports halls</b>	92,31%	1,28%	6,41%
<b>Museum Maintenance and Management</b>	98,25%	0,00%	1,75%
<b>Library Maintenance and Management</b>	100%	0,00%	0,00%
<b>Theater Maintenance and Management</b>	96,36%	1,82%	1,82%

N = 101 Municipalities Surveyed

Table 6 shows descriptive statistics for the use of hierarchical mechanisms across the three groups of municipal activities previously displayed in Table 3.

**Table 6. Hierarchical Mechanisms**

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>
<b>Mean</b>	89,15%	63,35%	70,56%
<b>Standard Deviation</b>	11,13%	22,29%	30,04%
<b>Minimum</b>	53,57%	6,52%	11,11%
<b>Maximum</b>	97,75%	84,78%	100%

Despite the supremacy across the board of the hierarchical mechanisms, it is important to emphasize that, as it was expected, its dominance is greater in the first group. Indeed, if we compare the average, standard deviation, and minimum values found, hierarchical mechanisms are more prevalent in the activities of the first group, showing the lowest values in Group 2. The standard deviation also indicates a greater consistency in the use of hierarchy mechanisms in Group 1. Compared with Group 2,

the results in the third group seem to indicate a higher adoption of hierarchical mechanisms, but below those of the first group. Thus, these data appear to confirm our initial hypothesis that economic development, distribution, regulatory and supervisory activities clearly tend to be provided by hierarchical structures and in-house bureaucracies. Table 7 displays the results concerning the use of market mechanisms.

**Table 7. Market Mechanisms**

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>
<b>Mean</b>	2,73%	29,84%	8,99%
<b>Standard Deviation</b>	2,68%	17,71%	11,89%
<b>Minimum</b>	0,00%	12,62%	0,00%
<b>Maximum</b>	9,09%	69,57%	37,14%

Analyzing the results for the market mechanisms, we verify that it is not the prevalent choice in any of the three groups. However, we notice that both the average (29.84%) and the maximum value (69.57%) are much higher for activities included in Group 2. The lower standard deviation also indicates that the choice of market mechanisms is more consistent in Group 2 when compared with the others. Thus, in this case, the results indicate that there is a stronger inclination to adopt market mechanisms for activities with characteristics of possibility of exclusion and rivalry in consumption. We should stress that, in the past, virtually all services were provided by hierarchical solutions, so that an average of 29.84% represents an important sign of change in the adoption of service delivery mechanisms.

**Table 8. Networks Mechanisms**

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>
<b>Mean</b>	8,12%	6,70%	20,45%
<b>Standard Deviation</b>	11,12%	9,89%	21,12%
<b>Minimum</b>	0,00%	0,00%	0,00%
<b>Maximum</b>	44,64%	27,17%	67,78%

Finally, Table 8 presents the results for the network type mechanisms. Regarding network mechanisms we again stress that this is not a mechanism adopted by the majority of any of the three groups. But again, if we analyze the average (20.45%) and maximum (67.78%), they seem to point to a greater willingness to choose this governance mechanism for the activities that compose Group 3. However, the standard

deviation shows a large variability in the use of networks in all three groups. This finding can be interpreted as an indicator of the lack of homogeneity of the activities included in the third group in relation to the governance mechanisms chosen. Again, although there is a greater preponderance of hierarchical solutions in Group 3, it is reasonable to argue a more discreet movement towards the adoption of network mechanisms.

**Figure 1. Governance Mechanism by Group**

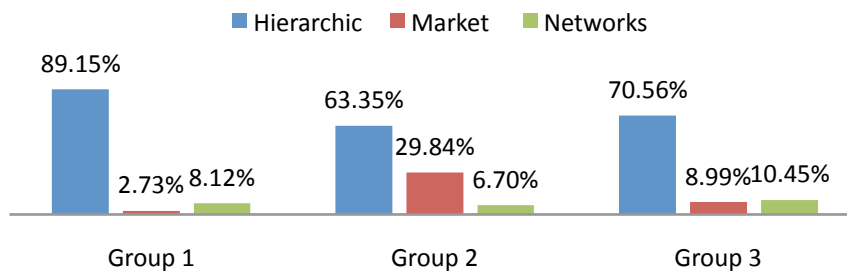


Figure 1 graphically summarizes all the alternative governance mechanisms for the three groups of municipal activities. Thus, from the overall results presented above we conclude that the nature of municipal activities determines, to some extent, the mechanisms of governance chosen, thereby confirming the three hypotheses set out to test this relationship.

Hypothesis 1: Given the results, we are led to conclude that our first hypothesis is confirmed. As expected, hierarchical mechanisms are more dominant in Group 1, that is, activities of economic development, distribution, regulation, and supervision are overwhelmingly carried out by mechanisms of hierarchy.

Hypothesis 2: The results show a progressive movement towards the adoption of market solutions. As we expected, Group 2 displays higher levels of use of market mechanisms in comparison to the remaining groups. Therefore, we conclude that activities involving the possibility of exclusion and rivalry in consumption are increasingly provided by market mechanisms.

Hypothesis 3: We can argue that activities included in Group 3 may be displaying gradual adoption of network solutions. However, it is important to express some reservations regarding this finding, since we detected some inconsistencies in the use of this mechanism of governance in the activities included in this particular group.

## **7. Conclusion**

The first conclusion we can draw from our findings is that hierarchical mechanisms are the dominant form of governance in all three groups of municipal activities. A possible explanation lies in the history and political culture of local governments in Portugal. The long tradition of direct provision by local governments and a predominantly parochial political culture have combined to produce distinctive influences, which still condition present choices (Scott 1995). In addition, there is a strong mayoral tendency, traditionally seen as responsible for the production and delivery of public goods and services. For years, municipalities have assumed their responsibilities in an isolated form, without any type of contract or collaboration with other organizations or sectors.

It is also important to underline that local governments were, during the dictatorship period (1926-1974), mere extensions of the national government. This is a relevant fact to explain an almost innate tendency to adopt hierarchical solutions as a default. Pressed by the collective needs and the political agenda, the political decision-maker is mostly inclined to adopt in-house solutions. Moreover, as already mentioned, only in the mid-1980s, the option of using the market became a viable alternative. Inter-organizational partnerships as governance forms are even more recent.

In spite of these historical conditions, the role and structure of municipal governments changed substantially after the democratic revolution, assuming a growing importance in the provision of public goods and services to citizens. Over the years, a wider range of solutions has been adopted by municipalities in order to accommodate new functional responsibilities and meet a larger scope of citizen needs and preferences. New organizational forms such as contracting with private agents, building complex networks with other local governments, and partnerships with nonprofits, are nowadays widespread forms of service delivery adopted by local governments in Portugal.

The main goal of the paper was to analyze whether the nature of services determines the choice of governance mechanisms in Portuguese local governments. We

notice that there is a great penchant for solutions of hierarchy. One explanation is the legacy of the “Estado Novo” and the cultural tradition of centralized local governments. This conclusion is in line with prior studies pointing out the persistence of institutional characteristics as a ‘genetic code’ (Araújo, 1999, 2001, 2002; Rocha, 2001). However, we note that a progressive trend is developing in the adoption of alternative governance mechanisms that, to a certain extent, are replacing traditional local bureaucracies in service delivery.

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