

**EGPA Annual Conference 2008
Rotterdam, 1-2 September – PhD Seminar**

**MECHANISMS OF GOVERNANCE: COORDINATION STRATEGIES IN
PORTUGUESE LOCAL GOVERNMENTS**

Institutional details:

Miguel Ângelo Vilela Rodrigues
Escola Superior de Tecnologia e Gestão de Mirandela
Instituto Politécnico de Bragança
Rua João Maria Sarmento Pimentel
Apartado 128
5370-326 Mirandela
Telef. +351 279 201 340
Fax: + 351 278 265 733
E-mail: mangelo@ipb.pt

ABSTRACT

Recent changes in Public Administration brought local government management to a new era. In recent years we witnessed a huge transformation in this reality. Early forms of organization, control and coordination of public goods have been replaced by other forms of organization such as contracting-out, private/public partnerships and public enterprises and agencies. Using a transactions cost framework, along with financial situation analysis, environmental complexity and political degree of stability we seek to find relevant factors that drive local government choices regarding the coordination mechanisms in the provision of public services.

INTRODUCTION

Currently, due to their level of proximity and periodic transfers of competences, local governments are responsible for much of the services consumed by citizens. Their competences are growing and nowadays include water supply, promotion of regional development, treatment of solid waste, emergency management, health, education, social services, among many others. To cope with all these challenges, local governments changed from a single multi-purpose organization to a complex network of relationships with other public bodies, private agents, and non-profit organizations. In fact, local governments in Portugal no longer assume in isolation, through control and coordination, the provision of all public services. In reality, local governments combine competences of different organizations to improve efficiency in public service delivery.

The traditional internal production of public services is long gone. Nowadays we can identify three different mechanisms of governance: hierarchy, market and networks. The path of the internal evolution begun with the simple hierarchic organization composed by municipal services, then it moved to municipalized services (a more autonomous and flexible configuration) followed by the ability of local government to create their own local enterprises (Tavares & Camões, 2007), that in many cases replaced former arrangements. By the end of the 1990s, local governments began contracting with external actors to provide public services. Their option was to contract-out public services making use of market price mechanisms and market competitiveness. In other cases, local governments preferred a more collective action approach, through the creation of inter-local government associations or a less competitive partnership with a non-profit actor (mostly on social services). In all, we identify seven organizational configuration alternatives to control and coordinate public services within the three mechanisms of governance: municipal services; municipalized services; municipal enterprises; municipal corporations; contracting private agents; partnerships with non-profit actors; and local governments associations. Our main objective is to identify and analyze the decision making process that led local governments to choose one mechanism of governance over the others.

As we share Stein's (1993) belief that each mechanism of governance should fit the nature of the public service it intends to provide, our goal is to establish limits between the natures of each public service. We employ typologies by Lowi (1964), Peterson (1981), and Barney (1999) to argue that: 1) inspective, regulatory and distributive activities are the main core of the hierarchical government mechanism; 2) activities similar to the ones provided by private agents, that is, where it is possible to identify and individualize consumers (Brown & Potoski, 2003a; 2005), are usually contracted-

out using market competition as a mechanism of governance (Ostrom & Ostrom, 1977); and 3) associative and less competitive solutions (network mechanism) are adopted when social services need to be provided or when a huge amount of initial investment is required (Lamothe, Lamothe, & Feiock, 2007; Brandsen & Pestoff, 2006; Osbourne & McLaughlin, 2004).

Further, we seek to establish additional relations between the alternative government mechanisms and other independent variables than the very nature of each public service. In order to do so, we identify four independent variables concerning the complexity of service being delivered, external environment, financial situation and administrative and political stability. First, we use a transaction cost framework to determine the complexity of each service as an independent variable. Services with high levels of specificity and difficult to measure involve high levels of transactions costs, making them less likely to be externalized (Coase, 1937; Williamson, 1975; Nelson, 1997; Ferris & Graddy, 1997). Second, we define external environment complexity as another variable. We argue that high levels of external complexity require more flexible solutions (Burns & Stalker, 1961) and, in contrast, the mechanism of governance based on hierarchy are more appropriate to lower levels of complexity in service provision (Weber, 1947; Alexander, 1995; Blau & Meyer, 1971). Third, we argue that different degrees of financial capacity drive local governments to choose different mechanisms of governance (Brown, Potoski, & Slyke, 2006). Finally, using Hood (1998), Frant (1996) and Clingermayer and Feiock (1997), we suggest that political instability can put pressure on politicians to improve efficiency levels through the use of external agents.

In order to conduct this research, we employ quantitative research methods. Based on our theoretical framework, we design a series of hypotheses and subject them to empirical testing using variables and indicators collected for this specific purpose (Amaratunga, Bladry, Sarshar, & Nelson, 2002). In order to measure transaction costs, we follow the methodology used by Brown and Potoski (2004; 2005; 2003a), Levin and Tadelis (2007), Feiock, Clingermayer, Shrestha, and Dasse (2007) and Leroux (2007) inquiring local government officials, and asking them to classify both asset specificity and measurability of public services. As a measure of environmental complexity, we employ, a Social Development Index, demographic and economic growth indicators. Financial indicators are also provided by official statistics giving full information about financial independency of local governments over central administration and a measure of indebtedness. Finally, based on Feiock, Clingermayer, and Dasse (2003) we directly ask local government officials to classify both administrative and political stability.

With this investigation we seek an explanation for the decisions of local governments to deliver public services using specific mechanisms of governance.

MECHANISM OF GOVERNANCE

Coordination is one of the most important principles of organization, in order to achieve appropriate articulation between different parts of the organization and to avoid any unwilling duplication or overlap (Van de Ven, Koenig, & Delbecq, 1976). Currently, due to various factors, which include increased autonomy and expertise of public services, liberalization of public monopolies, citizen needs and demands, and globalization and the new information society era, the special need of governments articulation and aggregation actions within the various elements that provide nowadays public service

has increased considerably. In other words, governments found themselves in need to establish communication, control and monitoring systems, that enable them to manage the cultural and organizational diversity of different agents that are responsible to provide public services. In other words, governments need to develop new techniques of coordination very much appropriate and inherent to the nature of the responsibilities that need to be managed.

Many scholars have already addressed the issue of coordination mechanisms, and the various strategies and techniques followed in order to achieve compatibility of the action between different agents. Initially, they began to be known as coordination mechanisms. Brickman (1979) calls them formats of coordination. Grandori (1987) identified them as diagrams of coordination. More recently, they took the label as mechanisms of governance (Peters, 1998). However, in all situations, the essence of the concept is virtually the same, that is, a liaison between the centers of decision within an organization or within an integrated network (Alexander, 1995). So it is the general opinion in the literature that coordination can be achieved through three mechanisms of governance: Hierarchic Type Mechanisms - HTM); Market Type Mechanisms - MTM); Network Type Mechanisms – TMR (Thompson, Frances, Levacic, & Mitchell, 1991; Verhoest, Peters, Beuselinck, Meyers, & Bouckaert, 2004; Alexander, 1995; Bradach & Eccles, 1991).

Hierarchic Mechanisms

Hierarchic types are the most common form of coordination and control (Verhoest, Peters, Beuselinck, Meyers, & Bouckaert, 2004). It is also considered as the most natural and efficient way to manage large organizations in a stable environment (Weber, 1947; Alexander, 1995; Beetham, 1991; Blau & Meyer, 1971; Verhoest, Peters, Beuselinck, Meyers, & Bouckaert, 2004; Eliot, 1991; Grandori, 1997; Araújo, 2003). In this type of coordination, political control exercised ability to command, making use of authority powers over management decisions concerning the allocation of resources for investments, expenses and maintenance of production facilities. The line of command flows normally from the top to the bottom, through formal and clear lines of communication. Planning and regulation are the main tools to manage. As such, control is exercised in advance in order to verify the conformity of action with the scenario planned and pre-established. Thus, given the impossibility to constantly control each action of all organization members, hierarchic mechanisms chose the formalization of procedures in order to fight back randomness.

So, it is a management model based on the sacrifice of personal interests in prop of organizational objectives strict enforcement of regulations, rules and orders (Hood, 1998). Through its mechanisms, the hierarchical model seeks to solve problems considered too complex for individual agents. On the one hand, it simplifies and reduces the degree of complexity due to the rational division of labor, and on the other hand, it creates a rigid system of accountability to avoid risks of disorientation (inherent in the division of labour) and ensure that all efforts of the organization are consistent with the overall objective (Eliot, 1991). It is also focused to ensure stability (that is, a uniform pattern of behaviour in the way that problems are solved, regardless of the administrative agent in charge), strict follow outlined administrative procedure, and discipline for any agents involved (Beetham, 1991; Grandori, 1997).

This model is very focused in the search for organizational effectiveness. The Weberian understanding of this concept is much more organizational than economic, since it does not establish a direct relationship between resources consumed and objectives achieved (Beetham, 1991). Thus, in organizational terms, efficiency is reached with the reduction problem complexity, through its division into smaller and easier tasks. Tasks become more repetitive and regular which allows an increase in productivity (Grandori, 1997). Combined with this fragmentation of complex problems, we find a well-structured formal authority to prevent the risk of organization incoherence with their main objectives. In sum, organizational efficiency refers to its ability to reduce task complexity while simultaneously establishing a proper link between the various departments as well as seeking to achieve a uniform and standard rational behaviour for all staff (Weber, 1947; Blau & Meyer, 1971; Beetham, 1991).

As we have already mentioned, authority is the coordination strategy used in this model of governance. Authority lays in rules and organizational norms of behaviour. It provides each element with clear information of what it is expected of him at each moment. It also facilitates the establishment of accurate behaviour and adequate procedures while distributing abilities, power and responsibility. In this way, the authority allows the correct supervision of all activities undertaken, it approves or rejects solutions, it solves conflicts between employees or departments, it punishes and forbids unwilled behaviours, it commands the unit, and renders possible performance evaluation (Hood, 1998; Eliot, 1991).

Market Mechanisms

The market mechanism is considered the traditional alternative to hierarchy. Its main thrust is that market forces – competitiveness – are able to coordinate the productive factors in a more efficient way than authority (Hood, 1994; Kettl, 2000; Ferris & Graddy, 1997; Stein, 1993; Gray & Jenkins, 1995; Osborne & Gaebler, 1992; Araújo, 2000). That is, competition and exchanges between agents through the price mechanism allows a better form of communication and control than the one produced by authority. Market is presented as a natural form to coordinate activities based on two basic principles: first, information on prices and conditions of commercialization are available, in an equal form, to all agents; second, all the agents have an individualist strategy trying to maximize their utility. Market mechanisms act within an environment of complete information and full capacity of the individuals to process this information (Grandori, 1997).

In the context of the Public Administration, market mechanisms were introduced during the process of modernization and administrative reform known as New Public Management (Hood, 1991; Osborne & Gaebler, 1992; Kettl, 2000; Lane, 2000; Ferlie, Ashburner, Fitzgerald, Pettigrew, & Andrew, 1996; Pollitt, 1990; Araújo, 2000). According to Hood (1998), this model of management, based in market mechanisms, launches four main challenges in Public Administration management. In first place, the possibility of market mechanisms within Public Administration: the fragmentation of the administrative structures and the end of public monopolies allows the conception of alternative and innovative institutional arrangements for the production of public services, way beyond the simple extension of big government (Rehfuss, 1991); Secondly, citizen choices: the introduction of market mechanisms aims to introduce

competition in the production of public goods and services as a form to maximize their utility as well as to increase efficiency in public administration (White, 1989). Thirdly, the behaviour of elected officials and bureaucratic performance are heavily criticized for having an individualistic attitude looking to maximize political power and agency budget (Niskanen, 1971; Buchanan, 1969). The use of external agents has as consequence the awareness that the bureaucratic organization is not a single solution for the production of goods and services. Acting in a competitive environment, bureaucratic deficiencies tend to be corrected, putting citizens back at the center of attention of Public Administration. Finally, the proliferation of alternative solutions to in-house production through the externalization of the production of goods and services modifies the role of the State. Government structures tend to concentrate on market regulation tasks while the Welfare State is becoming more and more a Hollow State, allowing other agents to provide public services (Brown & Potoski, 2004).

As already mentioned, the basic principle of market mechanisms is competition between the agents whom intend to assume the contractual position of producers of public goods and services. Competition is based on a dispute between economic agents to identify the ones that can present the most efficient solutions for the service delivery. We also expect solutions with larger management flexibility in order to provide better public services (Ferris & Graddy, 1986).

After externalizing the production, the initial investment, the property rights of capital assets, and the social responsibilities related to staff falls to the contracted agent. In such a way, governments gain flexibility and also the ability to decide the type and time period of the contract, the quality and the amount of public goods and services to be provided to citizens, and the possibility to adapt provision to their citizen needs. Thus, this situation of competition results to government as a maximizing way to stress private agents and third sector entities to present the most advantageous solutions, expecting to be chosen as the agent in charge of providing public services.

Network Mechanism

Traditionally, the literature in public management referred only to two alternative forms of governance: hierarchies and markets. However, other areas of knowledge already had developed efforts to identify a third way for the production and coordination of public goods and services (Tenbense, 2005). More recently, it was suggested a hybrid solution, based on dependence and mutual trust among economic/administrative agents. The sharing of overall objectives, values and information, allows the creation of a network including several players, with different legal forms, each with its specific and individual targets. However, due to their coexistence, somewhat informal structures are created, allowing the various players in action to combine efforts and resolve conflicts. In this case, there is no formal authority and the hierarchy; each agent belongs to the network because it understands the need and advantages of integration, as this is a voluntary scheme. Also, pure competition, a characteristic of market mechanisms, is replaced here by trust and negotiation.

The introduction of this discussion about the third alternative of governance in public management is associated with the work of Kickert (1997), Kooiman and Van Vliet (1993), Rhodes (1997; 2000), Klijn e Koppenjan (2000), among others. Thus, the concept of governance through the creation of networks can be understood as an

alternative to traditional methods of governance by authority and competition, using a collaborative approach of sharing information and resources and joint and concerted action (Considine & Lewis, 2003; Mossberg, 2007; Rhodes, 1997).

The networks mechanism presents itself as an advantageous alternative in comparison with prior mechanisms. This is still a form of outsourcing, but it is intended to have a larger time horizon, one that lasts way beyond a simple transaction. It is based on the principle that, by solidifying trust and loyalty between independent social actors, it is possible to construct a viable alternative to the production of goods and services. This is due to joint action, since each actor identifies what it can win through cooperation (Considine & Lewis, 2003). Thus, it ensures the continuity and co-existence of the agents involved, while it respects the independence of each one, allowing the levels of efficiency typical in market mechanisms but with higher levels of trust and more flexibility not obtained in hierarchies. So, rather than assuming a competitive attitude networks assume a more collaborative action exploiting synergies and sharing resources and risks (Kickert, 1997; Araújo, 2003). Currently, organizations are increasingly celebrating this kind of agreements establishing several strategic alliances (Milward & Provan, 1998).

THEORETICAL FRAMEWORK

Stein (1993) found evidence that the mechanisms of governance are related and appropriate to the nature of the services to be provided. The question is how to make that choice? What criteria can be used to help solve this problem?

The theory of transaction costs has been frequently applied to public services provision and provides a conceptual framework for analysis that highlights the strengths and limitations of each governance mechanism compared to the others (Tavares & Camões, 2007; Ferris & Graddy, 1991; 1986; Nelson, 1997; Hindmoor, 1998; Brown & Potoski, 2005). This theory argues that there are costs with the location of the agent that meets the pre-defined requirements (performance and quality), with the negotiation of the terms of the contract, and with the monitoring system required (Coase, 1937; Williamson, 1975). Therefore, transaction costs are essentially costs inherent to the production management of goods and services (Williamson, 1996; 1981). Thus, the selection of the mechanism of governance is done by analyzing which one best achieves the minimization of transaction costs (Brown & Potoski, 2003a; Nelson, 1997; Ferris & Graddy, 1997; Dollery, 2001; Feiock, Clingermayer, Shrestha, & Dasse, 2007).

Assuming that market solutions have lower production costs, they will be the best option, as long as the increase in transaction costs does not exceed the savings on production costs (Feiock, Clingermayer, Shrestha, & Dasse, 2007; Powell, 1991).

There are two factors that present themselves as the main causes of transaction costs: problems related with limited rationality and the opportunism of agents involved in the transaction process (Brown & Potoski, 2003a; Coase, 1937; Williamson, 1981; McGuinness, 1991). The problem of limited rationality, analyzed by Simon (1960), explores the cognitive limits of individuals in the decision-making process. Thus, the element that establishes the contract does not possess the capacity or sufficient information to predict all hypothetical situations that may occur in the future, putting him in a complex situation when the moment comes to choose between governance

mechanisms. Thus, due to this information asymmetry, there is a risk that the agent takes an opportunistic behaviour, that is, seeks to maximize its utility at the expense of the public budget, and thus receive benefits above those achieved in a situation of total and equal information (Araújo, 2000). So, given the desire to improve the performance and efficiency of public services, governments seek the solution of outsourcing with the inconvenience of the loss of direct control over the action of the employment contract. Given the constraints of the information asymmetry and agent opportunism, government seeks to create ways to control and monitor the action of the agent. However, making the terms of the contract more complex will increase transaction costs, endangering any possibility of outsourcing.

Also, the transaction costs largely depend on the nature of the activities to be transferred to an external agent. They are usually identified by the literature three risk factors that influence the behaviour of transaction costs: the specificity of the asset; the level of uncertainty, and the frequency of the transaction (Stein, 1993; Williamson, 1996; McGuinness, 1991; Nelson, 1997; Lamothe, Lamothe, & Feiock, 2007; Levin & Tadelis, 2007; Brown & Potoski, 2003a).

- Outsourcing activities with a high degree of specificity tends to favour the first agent with whom the contractual relationship is established, creating at the same time, a serious obstacle to the existence of market competition and a relationship of dependency by the contractor, achieved through long-term contracts (Brown & Potoski, 2003a). So, government will tend to avoid the externalization of the provision of asset with high level of specificity. However, third sector agents, due to their low opportunistic motivation compared with the potential ones shown by private agents, emerge as viable alternatives to outsourcing. (Lamothe, Lamothe, & Feiock, 2007).
- Uncertainty varies within two factors: the tangibility and capacity for measuring activities to be contracted; and the degree of competitiveness presented in the market (Brown & Potoski, 2005; McGuinness, 1991). So, as provision of public services becomes more complex and difficult to describe, more complicated will be the government task of controlling and monitoring the contract. This uncertainty translates itself into an increase in transaction making harder the idea of externalization.
- Finally, when provision of public services is needed at all time, it tends to create a degree of dependence between the agent and the principal. As already mentioned, in a similar situation, the opportunism of the agent makes the solution of externalization a tough decision.

Hence, transaction costs theory argues that there are costs in using market type resulting from the limited rationality of the principal and from the risks inherent to the opportunism revealed by the agent. So, as transaction costs increase, benefits from market solutions reduce. The complexity of the service, the competitiveness of the market, the frequency of the transaction are some of the variables that influence the increase of transaction costs and hence the decision to externalize provision of public services (table 1).

Table 1 – Alternative government Mechanism Vs nature of public services to be provided

	Hierarchy	Market
Service Complexity	- High Indicial Investment	- Easy service delivery

	<ul style="list-style-type: none"> - High Difficulty to measure service delivery; - High difficulties in re-affecting assets; 	<ul style="list-style-type: none"> - monitorization; - Low asset specificity ;
External Environment Complexity	<ul style="list-style-type: none"> - Low Market Competition - Service nature tend to create monopoly situation; 	<ul style="list-style-type: none"> - High Market Competition - Private agent with good reputation in the market;
Transaction Implication	<ul style="list-style-type: none"> - High dependency between agents; 	<ul style="list-style-type: none"> - Agents in charge of the production are easily substituted;
Coordination Mechanism more suitable	<ul style="list-style-type: none"> - Authority 	<ul style="list-style-type: none"> - Market competitiveness

Alternatively to this economic perspective, we can also perform a more political analysis. The political constraints issues may also, in its extent, influence the transaction costs, making the risk and /or the uncertainty associated with the externalization so high that it will become an unattractive solution (Feiock, Clingermayer, & Dasse, 2003). That is, in a political context with high levels of turnover, policy makers are hardly able to make credible commitments. Due to this uncertainty in leadership, government becomes a less desirable partner in the eyes of the agent. They will keep accepting a public partnership although they will try to get a risk reward, which in itself negates the efficiencies arising from the same contract (Feiock, Clingermayer, Shrestha, & Dasse, 2007).

But we can also analyze this dimension underneath a different perspective. The political agents act with a specific kind of political rationality, one that drives them to a re-election goal (Hood, 1998; Frant, 1996). In an adverse political context, where it is necessary to ensure re-election or extend a majority, the possibility of market solutions have some advantages: they represent an effort in trying to provide alternative of choice to citizens; they represent more efficient financial solutions (saving public resources); Organically they represent more flexible solutions. Thus, political agents may lead to an externalization of a certain service because they understand that this act could have positive political revenue, regardless of the factors previously discussed (Clingermayer & Feiock, 1997).

We can also discuss the choice inherent to governance mechanism within a more normative perspective. In this way we can look up to the different and alternative roles lay by the State where there are two structural and ideological approaches conflicting: one socialist or of left-wing matrix and another more liberal/right wing-matrix (Brunner & Meckling, 1977).

The socialist doctrine has a judgment of the capitalist system. It condemns an economy organized by the market and private property. It considers that, in purely economic and commercial societies, Men are used as tools of economic interests ignoring the social values, on behalf of maximization profits. In this environment, there is so much pressure on individuals that they feel obliged to be competitive and to use all necessary means in search of capital accumulation, even if that means the exploiting of a similar. Thus, on many occasions, self interest is the source of conflicts, injustices and inequalities. This will require a change in the social order so as to relieve men from their task of profit maximization. The state should therefore assume and guarantee

access for all the community to sufficient range of goods and services that meet the collective needs. Such an action promotes the values of fairness and promotes equality between individuals.

On the other side, a liberal view has a different assumption regarding the ideal role assumed by the state. It is based on the idea that market and competition are the best ways to use all available resources. Individuals have the capacity to be effective, but only if they are encouraged to do so. In rational attitude, men will prefer the maximum reward with the minimum of effort. A ubiquitous state in charge and responsible for making available a lot of public services will encourage the creation of an inefficient bureaucratic elite. The state should then limit itself to create the ideal conditions to ensure private initiatives and market perfect performance.

Similarly, you can make a distinction between regulatory and non-regulatory activities (Lowi, 1964). Thus, regulatory activities, usually involving an action limiting the freedom of individuals, modeling their behaviour, have a coercive nature imposing costs and obligations on citizens. These activities represent the sovereignty essence of the state, in this way they will very hardly externalize unlike non-regulatory activities.

PORTUGUESE SCENARIO

The evolution of the politics of transference of attributions and abilities from the Central Government, as well as the necessity to increase the efficiency levels, has lead the Local Government to improve existing in house solution as well as consider and use new organizational agreements (Table 2).

Table 2 - Different Organizational Agreement Choice

	Organizational Agreement
In House	a. Municipal Services b. Municipalized Services
Municipal Corporation Sector	c. Municipal and Inter-municipal Enterprises; d. Commercial Societies;
Private Agents	e. Contracting-out; f. Franchise;
Networks	g. Partnerships; h. Local Government Associations; i. Metropolitan Associations;

In order to better suit our investigation purpose, we will re-organize this organizational agreements using three dimensions to classify them into Hierarchic Type Mechanism – HTM, Market Type Mechanism – MTM, or Network Type Mechanism – TMR:

1. Degree of direct control – indicates the control exercised by the municipal executive. It is more direct when the executive makes use of its hierarchic powers to command and control production;
2. Degree of competition – indicates the competitive environment in which an agent is involved in the provision of public services;

3. Degree of inter-organizational cooperation – indicates the degree of share resources, information and risks so as to make a cohesive action for the provision of public services.

Thus, we saw that both in municipal and in municipalized services there is a strong presence of hierarchical control of local executive bodies away from any competition and cooperation with any other organization. In these cases it's even the mayor the direct responsible for an efficient satisfaction of the citizens' needs. Since 1998, some specific laws have allowed the creation of Municipal Enterprises (*Empresas Municipais*), responsible for the provision of local services. Municipal Enterprises 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 Enterprises were created with a similar approach to those of the private sector, but with the mission of developing activities under the monitoring of the Local Government. Municipal enterprises have a higher degree of autonomy than municipal and municipalized services. However local government superintendence power allows them a control very similar to the one obtained with hierarchic power. In inter-municipal enterprises we have the same scenario with the only difference that this control is shared with other Local Governments. In commercial societies the level of control and competition depends very much from the agents making part of the same society. So, commercial societies with the majority of private agents have more competition and less direct control from local governments than the one where the last ones are in majority. In another level, the relationship between Local Government and private agents (contracting-out or franchising) are characterized by the absence of an organic relationship/hierarchy between the principal and the agent. The nature of the relationship is based on the contract which is based on duties and obligations of the respective parties. The typical power of direction (issue orders to revoke decisions and punish) has been emptied and has limited the terms of the contract. At last, in a network situation, we see that in partnerships there is a high coordination of interests and a high spirit of mutual help among local government and third sector agents. In metropolitan associations, municipal control is less significant than the one identified in municipal associations. In this solution we verify a high level of cooperation mostly due to the associative nature of the organizational agreement.

Table 3 – Local Government alternatives characterization

	Degree of direct control	Degree of competition	Degree of inter-organizational cooperation	Governance Mechanism
Municipal Services	High	None	None	HTM
Municipalized Services	High	None	Moderated depending on the number of participants	HTM
Municipal Enterprises	High but indirect	None	Moderated depending on the number of participants	HTM
Inter-municipal Enterprises	High – indirect and shared	None	Moderated depending on the number of participants	NTM

Municipal Commercial Societies	Moderated	None	Moderated depending on the number of participants	NTM
Public Commercial Societies	Moderated	None	Moderated depending on the number of participants	NTM
Mixed Commercial Societies	Very Low	High	Moderated depending on the number of participants	NTM
Contracting-out	Very Low	High	Low	MTM
Franchise	Very Low	High	Low	MTM
Partnerships	Low	Medium	High	NTM
Local Government Associations	Significant	Low	High	NTM
Metropolitan Associations	Moderated	Low	High	NTM

HYPOTHESES

Firstly, it was necessary to aggregate all undertaken services provided by local governments. Based on investigations of Nelson (1997), Ferris and Graddy (1991; 1986), Feiock, Clingermayer and Dasse (2003) and Brown and Potoski (2003a; 2005), combined with the Portuguese reality we were able to gather a representative list of 46 activities performed by local governments. Then, making use of Stein's (1993) conclusion we will test the existing relations between the nature of services to be provided and the governance mechanism associated to their provision.

Hierarchic type mechanism is associated with regulatory and supervisory activities, because they have a coercive character for the citizen (Lowi, 1964). The same governance mechanisms are also more suitable for distributive and developing activities, according to the classification of Peterson (1981), as well as activities closely linked to traditional functions of the state (Barney, 1999) (table 4).

Table 4 – Hierarchy mechanism to municipal services provision

Governance Mechanism	Municipal Tasks
Hierarchy	<ol style="list-style-type: none"> 1. Supervision of Economic Activities; 2. Urban Management and Planning; 3. Management of Urban Mobility; 4. Municipal Police; 5. Veterinary Services 6. Office for Tourism Promotion ; 7. Urban Management and Rehabilitation; 8. External Cooperation; 9. Fire Service and Civil Protection; 10. Maintenance and Administration of Cemeteries; 11. Maintenance and Administration Kennel; 12. Maintenance and Administration of swimming pools; 13. Maintenance and Management of stadiums; 14. Maintenance and Administration of other sportive facilities; 15. Department of Health and Hygiene;

The market mechanisms are more feasible to be applied in situations where good characteristics are similar to private goods (possibility of exclusion and rival consumption) (Ostrom & Ostrom, 1977), or where the market reveals itself as a current and reliable alternative to the public sector (Brown & Potoski, 2003a , 2005). Thus, in situations where there is the opportunity and facility to establish unit costs, identify consumers, and where the activities have similarities with others supplied by the private market, we expect a prevalence of solutions for governance of the market (McGuinness, 1991).

Table 5 –Market mechanism to municipal services provision

Governance Mechanism	Municipal Tasks
Market	1. Safety of Buildings; 2. Maintenance of Buildings; 3. Roads construction and repair; 4. Collective Transportation Service; 5. Garbage Collection; 6. Maintenance of Public Parks and Gardens 7. Maintenance and Administration of parking; 9. Maintenance and Administration Canteens 10. School Transport Services;

After Peterson (1981) networks, solutions are the most appropriate way of dealing with redistributive activities. In many cases these activities are related to the nature of social action (Lamothe, Lamothe, & Feiock, 2007; Brandsen & Pestoff, 2006; Osbourne & McLaughlin, 2004). It also shows how this mechanism of governance is the most appropriate in situations where it is necessary to make large investments, taking advantage of economies of scale (Julnes & Pindur, 2004; Morgan & Hirlinger, 1991).

Table 6 –Network mechanism to municipal services provision

Governance Mechanism	Municipal Tasks
Network	1. Health Care and Medical Assistance; 2. Elderly Service; 3. Service to Combat Poverty and Social Exclusion; 4. Social Housing Service; 5. Maintenance and Management of Childhood Gardens; 6. Maintenance of elementary Schools; 7. Support Services to the insertion of young people into working life 8. Maintenance and Administration of Museums, 9. Maintenance and Management of Libraries; 10. Maintenance and Administration of Theatres; 11. Maintenance and Management of Civil Aviation Infrastructure; 12. Maintenance and Administration of markets Infrastructures; 13. Maintenance and Management of Industrial Parks; 11. Treatment of Solid Waste; 12. Water Supply; 13. Treatment sewage; 14. Distribution of Electric Power;

It's also our objective to establish a link between the mechanisms of governance (hierarchy, market and networks), which constitute our dependent variables, and a set of independent variables that, in our opinion, cover the main challenges facing the vicissitudes and municipal management. Thus, in Table 7 there are described the different variables and the indicators used for its mediation.

Table 7 – Dependent Vs. Independent Variable

Dependent Variable	Independent Variable			
Governance Mechanism: 1. Hierarchy 2. Market 3. Network	Service Complexity	External Environment Complexity	Financial Situation	Political and Administrative Stability
	a) Asset Specificity; b) Measurability Capacity	a) Social Development Degree; b) Economic Growth c) Demographic Growth; d) Population Density;	a) Financial Independence Degree; b) Indebtedness degree;	a) Political Stability degree; b) Administrative Stability degree;

Service complexity - This variable is based on the theory of transaction costs and aims to measure the complexity inherent in each municipal service. Transaction cost theory argues that complex services should be provided by the hierarchic system and that the simplest could be externalized (Coase, 1937; Williamson, 1975; 1996; Nelson, 1997; Ferris & Graddy, 1997). However, in certain situations there are cases of outsourcing of services even in case of high complex degree. However, in these situations after Lamothe, and Feiock Lamothe (2007) investigation, it's more likely in these last cases that we witness the establishment of partnership with third sector agents. The measurement of transaction costs will be made through the use of the concepts of specific assets and ability to measure, as the procedure used by Brown and Potoski (2004; 2005; 2003a) by Levin and Tadelis (2007), by Feiock, Clingermayer, Shrestha, and Dasse (2007) and Leroux (2007). That is, for each activity described there will be asked to allocate a rating (from 1 to 5) for each of the above-mentioned concepts.

Complexity of the external environment –It is assumed that as the external environment becomes more complex, the greater are the numbers of requests presented by citizens. In other words, as the degree of development grows, also the demands of the citizens become less basic and general, giving way to more specific and individualized ones. Thus, against an increase of complexity of external reality, hierarchic mechanism appears to be inadequate (Weber, 1947; Alexander, 1995; Beetham, 1991; Blau & Meyer, 1971). In more dynamic environment, this is with greater complexity, we expect to have more flexible solutions (Burns & Stalker, 1961), such as market mechanisms, and/or networks. Unlike the previous variable, to measure this concept of complexity, it will be used secondary data released by the national statistics.

Financial Situation - in this case, what we want to see is the direct link between a difficult financial situation of local governments and the option of outsourcing solutions for the supply of goods and services. That is, having reduced financial capacity willing to improve efficiency in the provision of public services at reduced costs, Local Governments tend to use market or networks mechanisms in the provision of goods and services (Brown, Potoski, & Slyke, 2006). On other occasions, the need for higher investment could constrain Local Governments to act in partnership with each other (Julnes & Pindur, 2004; Morgan & Hirilinger, 1991). Again the data to measure the concepts are drawn from the collection of the Portuguese financial municipalities' yearbook prepared by Carvalho, Fernandes, Jorge and Camões, (2005).

Stability Policy and Administrative - As already mentioned the administrative and political stability of a local government may reduce transaction costs. That is, the maintenance for several years of the same executive may lead to a greater confidence and expectation of contract compliance. This stability facilitates contractual relations and we can expect, according to Feiock, Clingermyer, & Dasse (2003), a greater desire for outsourcing the provision of goods and services. However, according to the same authors, this relationship could have an inverse reading (as already mentioned). Thus, a high level of political instability may enhance greater outsourcing in the expectation that the use of market or network solutions will increase quality efficiency and effectiveness (Hood, 1998; Frant, 1996; Clingermyer & Feiock, 1997). For the measurement of this variable it will be used the procedure used by Feiock, Clingermyer, & Dasse (2003). That is, for every situation (administrative and political) it will be asked to allocate a rating (from 1 to 5) for each of the above-mentioned concepts.

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