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An analysis of business models in Public Service Platforms

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ABSTRACT

Public Service Platforms (PSPs) are a new type of technology platform. They are based in the philosophy of New Public Management (NPM) and support public services for citizens in quasi-markets. This article increases our understanding of the business models behind these PSPs in terms of their Value Propositions, structures, networks, and financing. We interviewed representatives from 14 PSP providers in four public sectors in Sweden: education, healthcare, elder care, and public pensions. We identified a “Traditional view” with its focus on public agencies and neutral information and an “Emerging view” that includes dialogues, user evaluations, long-term perspectives on choice, promotion of the ideal of choice, and self-promotion by public agencies. The article contributes to research with its empirical example of the digitalization of NPM and the underlying business logic of PSPs.

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1. Introduction

In their seminal book, *Reinventing Government*, Osborne and Gaebler (1992) conclude that the public sector must abandon its monopolistic control that may have worked in the industrial age but is poorly suited to the information age and instead ask, “How do you take a bureaucratic system and transform it into an entrepreneurial system?” Their question is prompted by a growing ambition to replace government control with market control (see also Chandler & Daems, 1980). This emerging, ‘competitive landscape’ is at the core of New Public Management (NPM) – institutional market reforms that offer choices in public services and in service providers in quasi-markets. The principles of New Public Management (NPM) are well known to readers of *Government Information Quarterly*. For this reason, we do not present a comprehensive review of the NPM literature (for a review, see Thomas, 2012).

A central feature of NPM in many countries is the introduction and promotion of market reforms that control the production and delivery of public services (Le Grand, 2007). For example, the use of market-like mechanisms has resulted in quasi-markets in healthcare (Chauvette, 2003) and in education (Grubb, 2002). Such changes influence both the supply side and demand side of public services. There is an increase in the number of public service offerings, for example, in education, elder care, and healthcare, which are subject to market-like mechanisms. Consequently, the public sector is increasingly in competition or collaboration with private sector actors; this situation is often referred to as *co-opetition*

(Nalebuff & Brandenburger, 1996). Another consequence of this market orientation is that patients, students, and future pension recipients are viewed as customers (Lindgren & Jansson, 2013; Mosse & Whitley, 2009).

With *co-opetition*, the exchange process between citizens and public service providers has changed. Using vouchers, citizens can now ‘shop-around’ for public services. While many, not least the users, see a very positive benefit in this new public services model, others are more critical. The criticism is directed at the perceived over-emphasis on private sector vs. public sector goals and activities, and at the superficiality of treating citizens as customers (Lindgren & Jansson, 2013; Mosse & Whitley, 2009). Irrespective of this criticism, the focus on E-government and digitalization has spurred momentum in the development and exploitation of different information systems and technologies in the exchange process between citizens and public service providers (Janssen, Kuk, & Wagenaar, 2008; Panagiotopoulos, Al-Debei, Fitzgerald, & Elliman, 2012).

Through our study of four areas of the Swedish public sector, we identify a new type of information system, which we label Public Service Platform (PSP). This technology supports the demand side of the marketplace (i.e., citizens who search among public offerings) as well as the supply side (i.e., the public and private sectors that provide publicly funded services in quasi-markets). Research related to PSPs, with few exceptions (Ranerup & Norén, 2015), mainly focuses on a single domain of public service such as elder care (Meinow, Parker, & Thorslund, 2011), healthcare (Nordgren & Åhgren, 2011; Ranerup, Norén, & Sparud-Lundin, 2012), or education (Gomez, Chumarcero, & Paredes, 2012; Schneider, 2001). In terms of healthcare, Coulter (2010) discussed the introduction of and need for well-designed support for patient choice in services. In a study on the Choose & Book system and its use by patients, Green, McDowell,

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and Potts (2008) found that physicians exert considerable influence on the choice when patients are allowed to choose. Damman (2010) and Ranerup et al. (2012) surveyed technologies for patient choice and their characteristics in healthcare in Sweden and Holland. Collectively, this prior research contributes to our understanding of how technological platforms work from the perspective of citizens.

Previous research is also limited to the study and theorization of technology owned and controlled by a single organization. More often than not, such organizations are publicly-owned entities. Thus, there is often limited understanding of the dynamics of the technology used in co-opetitive environments. Furthermore, as revealed by previous research with a focus on citizens, the analysis of the supply side of the supporting technologies or, in other words, of the actors behind them in these markets, is deficient. To address this gap, we focus on the actors behind PSPs, and in particular on their business models. Therefore, in this paper we expand on existing research by focusing on the underlying business models of PSPs. Our research question is as follows: What are the underlying business models of Public Service Platforms in sectors driven by quasi-markets? We investigate PSP business models in 14 cases, focusing on four business model components. Our research methodology consists of interviews and examinations of technologies.

All organizations, public and private, use similar resources (i.e., human, capital, and knowledge) in their service offerings (Al-Debei & Avison, 2010; Amit & Zott, 2001; Hedman & Kalling, 2003). In the E-government research on business models, the focus is on the exchange of information and services, regardless of the provider (Panagiotopoulos et al., 2012). In this study, we drew on the business model literature that deals with the research on strategy, information systems, and E-government. We collected data from PSPs across four sectors in Sweden: education, healthcare, elder care, and public pensions. Following Zott and Amit's (2007) suggestion, we examined the PSP business models with respect to their public services offers (i.e., services traditionally offered only by public sector providers).

Our paper contributes to the E-government literature in terms of empirical examples from Sweden and theoretical insights on how NPM materialized in a digital world sometimes characterized as post-NPM or Digital-Era Governance (Dunleavy, Margetts, Bastow, & Tinkler, 2006). Specifically, we introduce and focus on PSPs — a new and emerging technology platform that provides public services. We also show the underlying business logic of different PSPs and crystallize two types of business models for existing PSPs: the Traditional view and the Emerging view.

The remainder of this paper is organized as follows. Section 2 explains prior research on business models and their core components. Section 3 describes our research methodology. Section 4 explains the results in terms of the four sectors of Swedish public service. Section 5 discusses our results and its implications, and Section 6 concludes the study.

2. Business models in the public sector

Our assumption, as introduced in Section 1, is that NPM quasi-markets with their technological and organizational structures and business models are interrelated. One fundamental result of the NPM movement is the introduction of modern business thinking, including competition, to the public sector (Dunleavy et al., 2006). The practical outcome is the shift from the public sector's monopolistic control of service delivery to a quasi-market where public and private organizations compete in offering taxpayer-subsidized services. With private competition in such public services, the logic of the free market is introduced with its business model of value creation and profit maximization.

2.1. Business models: a brief overview

The business model — the representation of how an organization creates, delivers, and captures value — expanded in the late twentieth

century to include the way in which Internet-based organizations conduct their activities (Timmers, 1998). The former EU Commissioner Paul Timmers (1998) pioneered the popularization of the use of business models in electronic markets. A number of researchers have applied the concept of business models: e.g., Janssen and Zuiderwijk (2014); Janssen et al. (2008), and Panagiotopoulos et al. (2012). The term business model, which originated in entrepreneurship and e-commerce and evolved into business and strategy research, is today often used in the public sector discussion.

Practitioners rapidly adopted the business model concept to describe the interactions and relationships among stakeholders in the firm's Value Network (Magretta, 2002). With reference to business models, Amit and Zott (2001) described the role of the value creation logic, Osterwalder, Pigneur, and Tucci (2005) described business processes, and Hedman and Kalling (2003) described the resource base and the longitudinal evolution of business.

According to Al-Debei and Avison (2010), the theoretical application of the business model concept has evolved over the years. Researchers have focused on defining and classifying business models for electronic markets (Timmers, 1998), on identifying specific business model types (e.g., utility business models; Rappa, 2004), and on listing E-business components (Pateli & Giaglis, 2004). Some public sector research studies have examined business models that evaluate public policy (Poel, Renda, & Ballon, 2007) or that take a broader E-government perspective (Janssen et al., 2008; Panagiotopoulos et al., 2012).

2.2. Business model components

With some exceptions, few studies systematically analyse business model components. We call attention to some studies that address this topic. Shafer, Smith, and Linder (2005) studied the business model definition, Pateli and Giaglis (2004) proposed an E-business model research framework, and Shafer et al. (2005) identified and synthesized business model components as the four categories of strategic choice, Value Network, value creation, and value capture. In their review of 29 research articles, Pateli and Giaglis (2004) found similar components. Zott, Amit, and Massa's (2011) review of 133 articles supports these findings although they noted that disagreement still exists on the definition of the business model. As a result, research tends to be designed to increase our understanding of business components in isolated, scientific silos. Based on this brief overview of the main contributions to the business model literature, in this paper we use the four generic business model components (Al-Debei & Avison, 2010) (Table 1) to analyse the 14 cases of this study.

Although the business model emerged from the business environment of competition, all organizations that offer goods and services do to some extent share the business model's core components. Business model components are also relevant in the discussion of the issues and dynamics of information systems in the public sector (Al-Debei & Avison, 2010; Panagiotopoulos et al., 2012).

As researchers have noted, the use of business models in E-government provides researchers with a complementary perspective

Table 1
Business models and their core components.
Adapted from Al-Debei and Avison (2010).

Component	Characteristics
Value Proposition (VP)	Factors related to the offer of services, products, and activities that create value for users.
Value Architecture (VA)	Factors related to how resources (tangible or intangible) are constructed in order to create value for users (e.g., technological configurations and organizational structure).
Value Network (VN)	Factors related to actors (internal and external) and their roles in the transactions in actor-to-actor collaboration.
Value Finance (VF)	Factors related to finance, ownership, and costs.

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