Institutional Change of Quasi-Market Arrangements in Local Public Transportation – Comparative Observations from Germany and Finland

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The paper analyses the effects of implementation of quasi-market reforms on local public transportation systems in Finland and Germany. Along with several other sectors of public service, local public transportation (LPT) has been subject to market-oriented reforms. In line with worldwide New Public Management reforms, quasi-market arrangements are presumed to produce more value for money for users and citizens. The aim of this paper is to analytically compare the organisational settings of LPT provision and

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delineate the factors that contribute to institutional convergence and divergence when applying quasi-market models. An extensive dataset of six case cities from Finland and Germany is used in order to analyse some of the most important trends and trajectories for different governmental levels (e.g., EU regulation), reflecting upon the empirical findings from the two countries. Utilizing an institutional theory approach, the relevant quasi-market arrangements in LPT are covered: public monopoly, private monopoly, and competitive tendering. The study discusses different factors that contribute to or hinder market-oriented structures in LPT and explores institutional theory-driven explanations as to why, for instance, Finland embraces market structures, whereas Germany shows more resistance to increased competition. Certain issues that seem quite similar irrespective of the two countries' contexts are discussed as well.

Key words: local public services, public transportation, markets, quasi-markets, Finland, Germany

1. Introduction

Local governments worldwide have increasingly relied on new organisational models to provide their citizens with services. Public sector reforms have played a central role in administrative development (Pollit, 1993; Hood, 1995). Competitive structures were introduced in former public monopolies (Pollit, Bouckaert, 2000; Boyne, 1998), coinciding with the New Public Management, an attempt to make public services more efficient through, for instance, managed markets (Hood, 2000). This concept has been applied to almost all services that are or have been organised by public administration, such as health care, education, and transportation (Bartlett et al., 1994, 1998; Walsh, 1995).

These reforms have influenced the structure of the public sector as a whole. Formerly, services were integrated into the structure of public administration (Rees, 1976), whereas currently, provision units are separate and work independently. Between the provider and the public authority (purchaser), there is usually a contract defining the demand for and quality of a service and the compensation for its provision (Walsh et al., 1997).

Another change is the introduction of profit-seeking private companies into fields that provide public services (Parker, Saal, 2003). A substantial development is the introduction of competitive structures that replace traditionally monopolistic ones. These new provision types resemble market structures to some extent and are therefore summarized under the term "quasi-market" (LeGrand, Bartlett, 1993). Quasi-markets combine the public authorities' ability to compensate for market failure with mechanisms that protect against government failure (LeGrand, 1991).

The EU adopted many quasi-market reforms, applying them to the public transportation sector, and as member states of the EU, Finland and Germany are obliged to follow its directives. Still, when comparing organisational forms in Finland and Germany, it becomes obvious that the two countries have not converged in the LPT sector: Finland is increasingly relying on the competitive tendering approach and Germany is maintaining a de facto public monopoly. In the context of LPT in Finland and Germany, the two main pressures are the need to adhere to EU legislation and the philosophy that quasi-market structures will improve the efficiency of public service provision. In this paper, we investigate how these two pressures have influenced the shaping of LPT institutional arrangements in Finland and Germany. More specifically, the aim of the paper is to compare the organisational settings of LPT provision analytically and to delineate the factors that contribute to institutional convergence and divergence when applying quasi-market models.

The paper uses an extensive dataset of six case cities from Finland and Germany. The dataset includes documentary and interview data regarding quasi-market arrangements for LPT provision in the case cities. The case data was collected between 2008 and 2012, and included 25 semi-structured interviews. Following the data analysis, we discuss the most important trends and trajectories for different governmental levels (e.g. EU regulation), reflecting upon our empirical observations. For the theoretical background, the institutional theory approach (e.g. Nelson, 2005) promises explanatory power to understand the institutional change. From this perspective, we cover the relevant settings for quasi-market arrangements in LPT: public monopoly, private monopoly, and competitive tendering. Methodologically, the paper is an exploratory study with an emphasis on the iterative use of theoretical concepts and empirical data. We aim to enrich the understanding of quasi-market models in LPT through theoretical scrutiny and reflective interpretations of empirical observations.

2. The Conceptual Framework and Research Design

Regarding methodology, first we identify relevant organisational variations in LPT, and investigate examples from both countries Germany and Finland. We have picked cases that represent each category and analyse the status quo as well as the case history with the help of publications and semi-structured stakeholder interviews. Interviews have been the source of complementary data that is not available from any other source. We then identify the factors that led to institutional change and compare them by using the national context. Finally, we group the factors according to the theoretical considerations.

Quasi-Markets in the Context of LPT. The quasi-market concept (cf. LeGrand, 1993) in New Institutional Economics primarily focuses on ownership and market organisation (Nelson, 2005). Ownership theoretically defines private entrepreneurs as profit maximisers, whereas public enterprises are not (Rees, 1976). Market organisation refers to a situation of either monopoly or competition; each approach leads to both positive and negative consequences and efficiency gains and losses.

A quasi-market is any arrangement or organisational form on the spectrum from an unregulated market to integrated hierarchical services organized by (in-house) public administration (cf. Williamson, 1999). A quasi-market has some qualities of a free market, but differs in many respects. In general, the quasi-market exists whenever the city administration buys services from outside the administration (cf. LeGrand, Bartlett, 1993; Walsh, 1995). Most notably, its purpose is to separate functions within organisational settings. In public administration, one such solution is the purchaser-provider split in which the public provider is an independent unit with its own management. This unit is legally bound to provide services according to a contract between the provider and the purchaser (instead of the user). In that sense, the city administration continues to define the demand for a service and leaves the position of the customer unchanged. LPT contracts are usually made for five to ten years for bus services and are subject to revision after that timespan (EU Commission, 2008).

There are four distinct quasi-market prototypes for LPT service provision based on the distinguishing criteria of ownership and market organisation. In institutional practice, mixed forms of organising, or hybrid forms, may occur within one city (cf. Swarts, Warner, 2014). Each approach dif-

fers based on the degree of market functions, from a protected monopoly to organisations resembling a free market. Table 1 illustrates the possible arrangements.

Table 1: Quasi-Market Arrangements in LPT

		Ownership	
		Public	Private
Market organisation	Monopoly	Public monopoly	Private monopoly
	Competition	Competitive tendering	

Source: cf. Seidel, 2009

Note that both public and private ownership forms exist in a competitive market, reducing the variety of forms to three: public monopoly, private monopoly, and competitive tendering. For this paper, we have created two dimensions of analysis: the ownership and the market organisation. Therefore, hybrid forms of LPT are discussed only indirectly (Swarts, Warner, 2014). For the sake of clarity of our methodological setting, the features of hybridity in LPT are addressed as combinations of public monopoly, private monopoly, and competitive tendering. We are interested in the mechanisms of institutional convergence and divergence in LPT in the shape of competitive tendering. However, as noted, hybrid forms in LPT represent themselves "in between" the conceptual categories we utilize (cf. Ebrahim et al., 2014; Hodge, Greve, 2005).

To study LPT from the institutional perspective, we need to search for factors that change the institutional setting. It seems feasible to examine cases that began in a different category than they are in now and cases that have resisted change (see below for a more detailed explanation of the theory). The traditional organisational model of LPT in Finland and Germany is different from the competitive tendering model preferred by the EU. Although there has been a general tendency to use market-like elements in LPT throughout Europe over the last two decades, German LPT systems in the past were almost exclusively public monopolies (Beck, 2012), whereas in Finland private monopolies operated nearly all mid-sized city services (Rosenberg, 2005). Selecting these countries for analysis enables us to understand to what extent the application of competitive

structures depends on "where you come from", in terms of institutional theory (Scott, 1991).

For a detailed investigation, we select cases from both countries that fit in each category (three cases in each country, six overall). We trace their development, asking how and why they transformed into their current institutional forms. To ensure that all varieties are covered and to provide an overview, we describe one example of each organisational form at the time of observation.

The case cities were selected based on the following criteria:

- the level to which the city represents both the form it belongs to and how it compares to other cities using the same form;
- the maturity of the organisational form (there is already institutional history; at least a few years of experience);
- the city size should be similar for both countries;
- the willingness of key actors to participate in the study.

According to these criteria, Frankfurt was selected as a competitive tendering system, Pforzheim (PFO) as a private monopoly and Wuppertal as an example of public monopoly for Germany. For Finland, Helsinki (HEL) represents competitive tendering, Jyväskylä (JYV) the private monopoly and Tampere the public monopoly. Frankfurt (FRA, population 687,775)[1] and Helsinki (612,664) are the same size, also in terms of their metropolitan areas with having over one million inhabitants each and are the most prominent representatives of the frontrunners of competitive tendering. Pforzheim (116,425) and Jyväskylä (134,658) are similar, in that Pforzheim is the largest of the very few cities in Germany that awarded the service to a private monopolist, and Jyväskylä is typical of any mid-sized town in Finland regarding private monopolies in LPT up until 2014. Wuppertal (342,885) is slightly larger than Tampere (220,446). Tampere is the last Finnish city to protect their public operator from competition and Wuppertal is typical of the vast majority of German cities that prefer to organise services through their own company. The fact that Wuppertal also owns a special monorail plays a negligible role. See Table 2 for a description of how the city cases fit into the quasi-market scheme.

[1] Figures for Finland (31. 12. 2013): http://www.stat.fi/tup/suoluk/suoluk_vaesto_en.html and for Germany: (31. 12. 2012) http://de.statista.com/statistik/daten/studie/1353/umfrage/einwohnerzahlen-der-grossstaedte-deutschlands/

Table 2: Fitting the Case Cities into the Scheme of Analysis

		Ownership	
		Public	Private
Market organisation	Monopoly	Wuppertal, Tampere	Pforzheim, Jyväskylä
	Competition	Frankfurt, Helsinki	

Institutional Convergence and Divergence in LPT Systems – Theoretical Remarks. Institutional systems rarely end up with completely similar outcomes, even if they are subject to common external pressures, or they apply similar mechanisms or managerial artefacts (Powell, DiMaggio, 1983; Vakkuri, 2010). Therefore, it can be assumed that given the distinct local conditions, quasi-market arrangements would have diverse implications for organising LPT systems in the case cities in Germany and Finland. Theoretically, the balance between convergence and divergence is not an easy puzzle. Institutional theory has explained the mechanisms of convergence, for instance, by using the argument of isomorphism (Powell, DiMaggio, 1991). In both countries, LPT systems have encountered coercive, mimetic and normative pressures to adopt and implement quasi-market models due to the EU's common regulatory framework (normative) and due to official assumptions about the efficiency of quasi-market systems (coercive). It may also have been important for local governments to decrease uncertainty in organising LPT by adopting models from perceived best practices (mimetic): LPT systems become more similar because institutional actors imitate each other's institutional practices (Kuhlmann, Wollmann, 2014).

Imitating best practices and applying common regulations might result in similar practices among public administration systems, to a certain degree, which implies that dissimilarity remains. The important point is then to distinguish the similar parts from dissimilar ones, and to discuss how we can better understand the balance between institutional convergence and divergence in LPT. There are two important areas of theoretical discussion. First, applying quasi-markets in LPT systems may increase convergence, but primarily at the symbolic level. Without significant contributions to efficiency, case cities may develop and "re-engineer" their LPT systems to resemble the activities of model organisations in a ritualistic fashion rather than to achieve true convergence. LPT systems might appear to be similar, but given the local

needs and conditions, they actually remain different in many respects (March, Olsen, 1988). Second, using quasi-market models is far from an unambiguous process because a quasi-market model is not fixed, like any politico-administrative artefact; local governments use quasi-market models for their contextual and situated practices (Orlikowski, 2000). Quasi-market models may help to understand the problems of organising LPT by (March, Olsen, 1988):

a) Describing the context of LPT (What is going on? What is the most important problem to solve?);
b) Searching for solutions that contribute to good performance in LPT (What should be done to improve LPT?);

Predicting future outcomes (How should the outcomes of applying quasi-market models be evaluated?).

In this process, quasi-market models are not pure "textbook models", as they do not remain the same. On the contrary, they are constantly reinterpreted, revised, and transformed by institutional actors and the process of use, which enriches the comparison of LPT systems in the two countries in terms of understanding relevant actors' policy interpretations. By exploring those interpretations, we may more fully understand the effects of using quasi-market models on LPT (Aidemark, 2001; Vakkuri, 2010, 2013). Although the case cities can and do (to varying extents) use quasi-market models as they were initially designed, they also circumvent prescribed ways of using the models. They tend to ignore certain properties that do not fit well into local political and financial conditions. Furthermore, actors tend to work around some properties and invent completely new ones. As Lindblom and Cohen (1979) succinctly argued, by doing this, institutions may solve some existing problems but simultaneously initiate new ones. This applies to the uses of quasi-market models in LPT systems.

The Regulatory Framework for LPT in the European Context. In LPT, the quasi-market is legally regulated at three levels: EU legislation, national laws regarding subsidies, and regional (and/or local) regulations. In this section, the relevant EU legislation is presented and the national and regional influences are discussed at the country level.

The regulatory background of LPT in the EU was due for a change in 2009. The changes affected national legislation, which required additional time to change; transitional regulations still apply until 2019. Many of the changes are connected to the choices that city administration can make.

With adoption of the new EEC 1370/2007, the regulations became more specific and detailed compared to the old EEC 1893/91.

Subsidy rules are an important means for the EU regulation to influence LPT. Since almost none of the local public bus service can sustain itself exclusively by income from fares, the regulations regarding public service subsidies apply, and they need to be fair and visible. Consequently, contracts are drawn up and there are specific LPT rules which have undergone changes after an extensive debate: EEC 1893/91 mandates authorities to use competitive tendering for unprofitable services (compulsory competitive tendering as in the UK), unless national laws specify otherwise. Local authorities in some countries, including Germany, argued against including certain kinds of subsidies into the calculation of profitability, such as special fares for students and elderly. Moreover, the authorities believed that the EU's restrictions would impede the subsidy principle by limiting local choices in an illegitimate way.

After a court decision on subsidies, the decree was redrawn, and in 2009 the new decree EEC 1370/2007 became the legal reference. This decree allows the following procedures: First, the city administration can give competence to perform the LPT service to a public operator, although this option is supposedly exceptional. Second, it is possible to give competence to perform service to a private operator directly if the amount is limited (below 2 million euros or 600,000 passenger-kilometres[2] maximum for small enterprises). The majority of services are expected to undergo a competitive tendering procedure, which is the third option.

National laws regulate the flow of subsidies; in Germany, the law on regionalisation plays an important role. Although not originally meant for paying direct LPT subsidies, the money directed for regional cooperation in transportation can also be used for LPT operations. One reason may be that these subsidies replaced direct financial support for providing public transportation according to the law for financing LPT at the local level (Gemeindeverkehrsfinanzierungsgesetz, GVFG). In Finland, the law on public transportation called Joukkoliikennelaki (869/2009) applies the EU regulation to the national level. It was developed from the decree 343/1991, which introduced competitive tendering to Finnish municipalities.

[2] pkm = passenger-kilometres - the distance that all users of public transportation travel in a year.

3. Quasi-Market Arrangements in LPT – Empirical Observations from Germany

In Germany, public operators have traditionally provided LPT, and larger cities own a company that runs LPT under a service obligation. Smaller cities either seek to collaborate with larger neighbouring cities, or large state-owned companies provide the service, such as Deutsche Bahn. With the update of the EU legislation in 1991, nothing changed in the system of public monopolies, despite an ongoing legal debate on whether the municipalities were allowed such practices under the EU law. Eventually, some significant changes occurred as a consequence of financial steering mechanisms. Some of the state subsidies for LPT were paid under the condition that cities in the same region would collaborate in organising public transportation (both rail and bus) for their area. Soon, those task-related collaborative entities, called Zweckverbände, formed among municipalities across Germany to plan, organise and finance LPT jointly. The operating area is called Verkehrsverbund and can extend 100 kilometres in diameter and reach across administrative Länder boundaries (for example VRN and VBB). The goal of this reform was to produce coordinated services for LPT users and improve usability, for instance, through creating connections across municipal borders and simplifying ticket acceptance.

Pressure by lobbyists and some scholars (Ewers, Ilgmann, 1999) to abolish the public monopolies and replace them with competitive structures increased in the late 1990s and early 2000s. In anticipation of a new EU legislation demanding competitive tendering as the sole LPT model, the State of Hessen passed a law in 2005 (ÖPNVG) that compelled all municipalities (except members of the VRN Verkehrsverbund) to offer their services for competition. Consequently, the city of Frankfurt, as a part of Hessen, introduced competitive tendering for bus services despite the incumbent public operator's resistance. The city network was divided and tendered in five parts over the next few years (Rehn, Valussi, 2006). As of 2014, all parts have been tendered at least once. The public operator survived as one of three big players in the city, the other two being the private global players Veolia and Arriva. The price the city paid for LPT services has been significantly reduced, which is why it is regarded as a success by the city administration. On the downside, the market dynamics are quite limited, with few competitors, so the city is concerned with keeping all of the operators in the market, otherwise the competition may wane.

The city expressed the significance of maintaining the public operator as a backup player and keeping the market competitive. Seidel (2015) theorizes that two market entry barriers are access to infrastructure and the workforce. Collaboration between bus operators, encouraged and partly enforced by the city administration, has helped overcome access difficulties (ibid.).

Introduction of competitive tendering into Frankfurt happened against the will of the incumbent operator and its employees. The management of the public monopolist saw transaction costs exceeding possible benefits and felt protective toward employees. The employees feared losing their jobs, worsening working conditions and loss of benefits, all of which happened, except for layoffs. Both groups would reverse the reforms if possible (Seidel, Vakkuri, 2013b).

As of 2014, the Frankfurt example is still an exception to the rule of public monopolies in Germany (Beck, 2012). Except for the state of Hessen, competitive tendering occurs in the areas which have one dominant city in the region. This observation suggests that the collaborative entities, whose players are equal, tend to prefer a status quo. This makes sense, as many actors need to agree on a significant change such as the shift from direct contracts to competitive tendering. Because the coordination within the task unit requires substantial work, the actors hesitate to put such a controversial subject on the agenda unless outside pressure is exceptionally strong. In the areas where one large city dominates smaller ones, initiating a change appears easier. Another reason for the tendency of smaller towns to refrain from tendering may be the fear that lack of applications will lead to no competition, putting the present monopolist in an even stronger position. In addition, the entire cost of preparing for a new system would be wasted, and fear of the unknown, or risk avoidance, seems to have a role in maintaining the present system.

Many German cities have decided to continue to give services to their own operators for various reasons. The arguments in favour of continuing public delivery are partly congruent with the arguments against competitive tendering. In Wuppertal, for example, there is a presiding fear of transaction costs for changing the organisational model. The city has refrained from introducing competitive tendering structures because officials doubt that there would be any economic gains. Instead, the operator believes that most of the cost reductions and efficiency improvements have already been achieved. The fear of losing expertise in organising LPT emerges when another vendor provides the service. For now, Wuppertal's

city administration is trying to maintain the organisational form, but the administration has been active in implementing some market-like structures. After releasing the bus operator from the public administration structure, the management received more independence in decision-making. Under pressure to reduce costs, the public operator has subcontracted lines, bought private operators and transferred employees to a separate service company. While the workers opposed these changes because they could lead to deterioration of income and working conditions, the management welcomed the reforms (Seidel, 2015).

The private monopoly is a rather rare organisational form in Germany. According to the EU legislation, only small services can be given directly to a private operator without competition. Hence, this model works only for small cities or as a supplementary form of service provision in larger ones. There is an exception in case the entire network is sold to a private company in a competition. For example, Pforzheim was among the first German cities to sell the majority of their public company to a private operator, Veolia. However, this case is not a clear-cut monopoly because the city kept a minority share and the sale included a call option. Fear of the unknown, commercial exploitation and concerns regarding workers' rights led to public protests, ending in a non-binding vote. The city decided to make the deal against the will of the majority of voters because it was in a desperate financial situation following the global economic crisis, which struck Pforzheim in particular. The liberal mayor saw an opportunity to ease the city's fiscal problems by selling assets and having private companies provide potentially cheaper public services. To address voters' concerns, the city decided to keep a minority share and include a call option in the contract. Concerns about the loss of workers' rights were addressed in the contract as well, with the city compensating individual income losses. The actors managed to find a solution for keeping expertise in the city and transferring knowledge to the operator by appointing the former head of the transportation unit as the new manager of the joint venture (Schütze et al., 2009; Seidel, 2015).

Veolia's calculations turned out to be too optimistic and the operator recorded losses for most years. To save costs, the management tried to make agreements with the labour unions that would negate the securities guaranteed in the working contracts, which the union partly accepted. The situation developed in such a dissatisfactory way that in 2014 the city decided to use the call option to end the contract and buy back the shares from Veolia. A serious dispute about the value of the shares has been ignited, as the city insists on the contract despite Veolia's preference to

price in the losses from the previous year, claiming that the losses are entirely to the disadvantage of the private partner. This latest development has dissuaded other cities from copying the Pforzheim model; especially since the city itself believes that the transaction costs more than keeping the previous structures (Seidel, 2015).

4. Quasi-Market Arrangements in LPT – Empirical Observations from Finland

Finland's LPT services are organized in a much more different manner than in Germany. Traditionally, most cities were served by private operators who enjoyed a de facto monopoly of repeatedly renewed concessions (Rosenberg, Räsänen, 2005). Finnish municipalities had little choice – they could either accept the private offer or provide the services themselves. Only the five largest cities in the country (in the capital region of Helsinki, Tampere and Turku) used city-owned companies to organise LPT. In the Helsinki region especially, numerous concession holders caused a chaotic situation of uncoordinated public and private services. To improve coordination in the capital region and break up the private monopolies with their excessive pricing, Helsinki, Espoo and Vantaa were allowed to change jointly their organisation type to a competitive tendering regime. First, the services outside Helsinki and across the municipal borders were tendered in 1994, and later transportation within Helsinki was included in the system. The coordination of public transport improved significantly. The competition is still active and the prices the authorities pay are much lower than before (Valkama, Flinkkilä, 2003; Sinisalo, 2007). The public operator from Helsinki is one of the seven players in the network today and is regarded as valuable for benchmarking. Unlike Frankfurt, the public operator is not needed as a safeguard, but the operator helps to keep prices low through winning tenders (Seidel, Vakkuri, 2013b). Problems in Helsinki have occurred because of unhealthy competition, leading to an unprofitable market (Valkama, Flinkkilä, 2003). Deteriorating working conditions and low salaries have made the job market so unattractive that the companies have had difficulty recruiting workers (Haatainen, Harisalo, 2003). Despite these problems, the case is considered a success by the city administration and as a consequence, other cities have started following Helsinki's example (Sinisalo, 2007).

First Turku and then Tampere introduced competitive tendering. While Turku is strict with their tenders, Tampere plans to keep 50 per cent of

tenders under public control through direct service contracts. The manager of the public operator was successful in preventing competition for a long time, negotiating annual cost reductions with the city for a safe monopoly in return (Seidel, 2015). In 2006, though, there was a purchaser-provider split, which was applied to the city's entire public sector, leading to greater cost transparency and laying the ground for additional organisational shifts (Kallio et al., 2006). Although the management is more independent on paper, the public operator still needs to fulfil obligations and tasks that the administration sets. The need to utilize employees from other parts of city administration and the compulsory use of city services means that the company is still not as autonomous as a private operator (Seidel, Vakkuri, 2013a).

Despite the manager's attempts to maintain the monopoly, in 2009 Tampere introduced its first tendering process as a test when tendering advocates gained control of the city administration. The city was satisfied with the results and decided to tender half of the city network gradually, sometimes excluding their own operator from competing. This system shift still occurred in 2014, and several private operators joined to manage LPT in Tampere. Currently, the city wants to keep the public operator as a back-up and a benchmark for the future, especially since the operator has been successful in reducing costs. While the administration has been happy with the results so far, there is criticism of the changes from employees who have lost privileges and the public operator who sees advantages in the previous system (Seidel, 2015).

Representing the majority of Finnish cities with a heritage of private monopolies, Jyväskylä's LPT was operated by a private company (Jyväskylän Liikenne) for many decades. Despite paying high prices for the private service, the city administration did not consider establishing its own company as a viable option because of anticipated high transaction costs. The city lacked the infrastructure, personnel and expertise, and the administration did not want to jeopardize a successful, long-term relationship with the operator, despite paying excessive prices. Eventually, given the option of competitive tendering, the city finally decided to start competitive tendering in 2014 – a decision that coincided with a personnel change (ibid.).

Expecting cost reductions, as in Helsinki, the administration also spent time acquiring expertise in tendering processes and public transportation knowledge. In the tendering, naturally there were only private operators. The competition was won by a newcomer. However, the problem arose

with recruiting drivers and acquiring vehicles and infrastructure. The incumbent immediately signalled the intent to keep those assets, which led to a dilemma for the new operator. The two operators engaged in a subcontract deal in which the incumbent operates all services the company used to operate. One may wonder how much real competition there is when the incumbent has such a strong position, preventing new entries by exploiting market entry barriers. Other mid-sized cities with former private monopolies such as Kuopio, Joensuu and Oulu have only recently begun competitive tendering (ibid.).

5. Conclusion

The aim of this paper has been to compare the organisational settings of LPT provision and to examine the factors contributing to institutional convergence and divergence when applying quasi-market elements. It deals with the use of market-oriented reforms in local government through an analysis of six case cities in Germany and Finland.

Our study assesses the complex mechanisms and levels of institutional change in LPT provision**.** The question of convergence and divergence is dependent upon how we define the ultimate directions of institutional action. LPT systems in Germany and Finland are subject to common forces of normative isomorphism; EU-level regulation could theoretically lead to uniformity by introducing competitive tendering as an institutional norm. Observationally, though, the EU legislation has had only a minor impact while other institutional factors have played a more important role in shaping the institutional set-up of LPT. From the observation of German and Finnish cities using quasi-market elements in LPT, we find significant variance in the reforms' impetus and their extent. We conclude that converging and diverging factors simultaneously shape LPT institutions.

Finnish cities are more in favour of competitive tendering than German cities. The main reason for this lies in trajectories. Due to tradition, private monopolies in Finland have been regarded very critically and city officials were sure to save money through tendering. The example from Helsinki has been acclaimed as a success story, inspiring other cities to follow the same path, first Turku, then Tampere and others. Germany has lacked this success story, although Frankfurt possibly starts to take this position now. As frontrunners of LPT reforms in their respective coun-

tries, Helsinki and Frankfurt fuel expectations that costs can be saved through competitive structures. Especially in fiscal emergencies, selling to the highest bidder seems to be a solution, as in Pforzheim. Nevertheless, public monopolies are generally regarded as less problematic by cities. German officials emphasized administrative public sector reforms (see Wuppertal) in order to improve efficiency and avoid transaction costs. In cities with lighter financial pressure, the public operator is threatened with competition (Tampere and Wuppertal). For public managers, this threat may provide a window of opportunity to push through institutional reforms they already consider necessary. Public companies adopt the management thinking and behaviour of business organisations by outsourcing and establishing companies, although the city, as the owner, may impose restrictions on these companies. The companies are compelled to employ certain groups of workers and use overpriced services and infrastructure that contrast with their own business logic (Tampere, Pforzheim and Wuppertal).

For Germany, there are different influences of regional nature. Since the states have legislative power, they have imposed competitive tendering in the State of Hessen including Frankfurt. Further, the regional collaboration between cities (Verkehrsverbund) plays a role and coordination tasks raise the barrier to initiate a change by one city only. Trade union power rhetoric stands against the willingness to give up privileges due to changes in organisation forms, since much of efficiency gains have been achieved in connection to workers. All changes have been accompanied by heavy resistance in both countries, but this concerns both public and private organisations. One of the side-effects is that excluding the opportunity of cutting personnel costs makes the involvement of new private companies, and thus competition, much less attractive.

A number of factors are arrayed against LPT market reforms. Avoidance of uncertainty and lack of expertise seem to prevent cities from adopting changes. Economic factors such as transaction costs and market entry barriers may prevent successful competition. Once started in the LPT sector, there is no guarantee that markets will function, and exploiting the monopoly position may stall change (cf. the development in Jyväskylä). Personal influence, as seen in Tampere and Jyväskylä, may delay the introduction of a competitive structure for a long period, but reforms will be implemented once personal ties have diminished. Incumbent operators usually claim that they are more capable of providing the service than other providers, which may hinder market-oriented reforms. Other forces that oppose market structures are the employees who rightfully fear

being worse off than before the reforms. Yet, they have little influence on preventing structural changes. Public opinion, in contrast, has proven successful in balancing at least some reforms in Pforzheim.

Table 3 displays factors from the case cities that influence the institutional setup of LPT. The convergence factors are grouped according to the three causes of isomorphism, as described in Chapter 2: Normative, coercive and mimetic factors sometimes find counterparts in divergence, although some diverging factors cannot be neatly placed in these categories. The abbreviations in parentheses indicate to which city the factor applies or applied as a driving force.

Table 3: Empirical Factors Contributing to Convergence in the Use of Quasi-Market Structures in LPT Systems

Normative

- EU regulation on competitive tendering as a standard in LPT (all cases)
- Regional regulation (FRA)

Coercive

- Belief in efficiency of competition (FRA, HEL, JYV, TMP) or other market elements (PFO, WUP) such as outsourcing, joint ventures and collaboration
- Suspicion of monopoly exploitation (JYV, HEL, TMP, PFO)
- Fiscal emergency (HEL, PFO)

Mimetic

- Following good practices (JYV, TMP)

Table 4: Factors Contributing to Divergence in the Use of Quasi-Market Structures in LPT Systems

- Belief in superiority of a public agency (all public operators, especially in WUP, TMP)
- Other market failure elements, such as entry barriers (JYV, FRA), transaction costs (WUP, FRA), information asymmetry (PFO, JYV)
- Lack of expertise (JYV) or the fear of losing it (PFO, WUP)
- Use of market power preventing functioning markets (JYV)
- Uncertainty caused by lack of knowledge and suitable examples (WUP, JYV)

- Personal relationships of key actors (TMP, JYV)
- Large collaborative entities (WUP)
- Special obligations for public companies (TMP, WUP, PFO)
- Resistance to changing employees' working conditions (PFO, HEL, TMP, FRA, WUP)

Tables 3 and 4 present conclusions of the institutional analysis of the decisive factors that shape quasi-market structures in LPT systems. Some of the diverging factors are being handled successfully. Market entry barriers have been reduced through forced collaboration and active competition policy in Frankfurt and Helsinki. Hybrid forms such as joint ventures have prevented monopoly exploitation in Pforzheim and outsourcing has reduced costs in Wuppertal, similar to shared markets in Tampere.

The factors presented in Tables 3 and 4 often coexist in LPT systems; in addition, these factors apply to different levels of public administration and institutional life. In the context of LPT systems, convergence or divergence might be outcomes of EU-level regulation (see earlier), a national market-oriented zeitgeist (cf. Germany and Finland, including the case cities), local political and financial conditions (cf. Pforzheim and Helsinki) and individual actors, such as public managers (cf. Tampere and Jyväskylä). The research demonstrates a trend toward convergence (defined as "competitive structures" or "quasi-market arrangements") in LPT systems, with an exceptionally rich complexity of institutional forms and their variants. More studies are required to explore this organisational complexity and the interaction of the shaping factors.

The field of administrative research is interested in the phenomenon of "re-municipalisation", where previously privatised services are (again) being organised by public authorities. In this context, LPT in Finland cannot confirm the trend. There has been no case of shifting away from private operation in favour of public arrangements. There have been cases when private monopolies have been contested by tendering, with the result of private companies winning the competition and no public authority participating in the tendering, such as the case of Jyväskylä. The reason for this is a market entry barrier in the form of lack of expertise in organising and operating LPT, as well as transaction costs. Since private monopolies have been the standard in Finland, market entry barriers prevent re-municipalisation at least for the time being. In cities where public provision exists, it does not gain overall market shares from private competitors.

In Germany, the situation is different. There is expertise from the regular public operations dating back in time and the development towards privatisation has been delayed by decades, so that privatisation has not happened yet. Before "re-municipalisation" there obviously needs to be a privatisation phase, and the institutional failure can lead to a trend of reviving public operation. The experience of Pforzheim has the potential of becoming a showcase, where the city is ending collaboration with the private operator. Generally, it is too early to identify re-municipalisation in Germany's LPT.

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INSTITUTIONAL CHANGE OF QUASI-MARKET ARRANGEMENTS IN LOCAL PUBLIC TRANSPORTATION – COMPARATIVE OBSERVATIONS FROM GERMANY AND FINLAND

Summary

The paper analyses the effects of implementation of quasi-market reforms on local public transportation systems in Finland and Germany. Along with several other sectors of public service, local public transportation (LPT) has been subject to market-oriented reforms. In line with worldwide New Public Management reforms, quasi-market arrangements are presumed to produce more value for money for users and citizens. The aim of this paper is to analytically compare the organisational settings of LPT provision and delineate the factors that contribute to institutional convergence and divergence when applying quasi-market models. An extensive dataset of six case cities from Finland and Germany is used in order to analyse some of the most important trends and trajectories for different governmental levels (e.g., EU regulation), reflecting upon the empirical findings from the two countries. Utilizing an institutional theory approach, the relevant quasi-market arrangements in LPT are covered: public monopoly, private monopoly and competitive tendering. The study discusses different factors that contribute to or hinder market-oriented structures in LPT and explores institutional theory-driven explanations as to why, for instance, Finland embraces market structures, whereas Germany shows more resistance to increased competition. Certain issues that seem quite similar irrespective of the two countries' contexts are discussed as well.

Keywords: *local public services, public transportation, markets, quasi-markets, Finland, Germany*

INSTITUCIONALNA PROMJENA KVAZI-TRŽIŠNIH ARANŽMANA U LOKALNOM JAVNOM PRIJEVOZU – KOMPARATIVNE OPSERVACIJE IZ NJEMAČKE I FINSKE

Sažetak

U radu se analiziraju efekti primjene kvazi-tržišnih reformi na sustave lokalnog javnog prijevoza u Finskoj i Njemačkoj. Lokalni javni prijevoz je s nekoliko drugih sektora javnih službi podvrgnut kvazi-tržišnim reformama. Prema ideji svjetski raširenih reformi u okviru novog javnog menadžmenta, smatra se da će kvazi-tržišni aranžmani dovesti do adekvatne »vrijednosti za novac« za korisnike i građane. Cilj rada je analitički usporediti organizacijsko uređenje lokalnog javnog prijevoza i utvrditi faktore koji pridonose institucionalnom približavanju i udaljavanju kad se primjenjuju kvazi-tržišni modeli. Koriste se bogate baze podataka za šest gradova u Finskoj i Njemačkoj da bi se analizirali neki od najvažnijih trendova i razvojnih linija za različite razine vlasti (primjerice, EU regulacija) te se donose zaključci temeljem empirijskih nalaza iz dvije navedene zemlje. Koristeći pristup institucionalne teorije, analiziraju se relevantni kvazi-tržišni aranžmani u lokalnom javnom prijevozu: monopol javnog sektora, monopol privatnog sektora i natjecateljsko prikupljanje ponuda. Rad raspravlja o različitim faktorima koji pospješuju ili otežavaju djelovanje tržišno orijentiranih struktura u lokalnom javnom prijevozu te ispituje na institucionalnoj teoriji utemeljena tumačenja zašto je, primjerice, Finska prigrlila tržišne strukture dok Njemačka pokazuje više otpora razvijanju kompeticije. Raspravlja se i o pitanjima kod kojih postoji sličnost neovisno o kontekstu dviju zemalja.

Ključne riječi: *lokalne javne službe, javni prijevoz, tržišta, kvazi-tržišta, Finska, Njemačka*