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CSS CENTRE FOR SERVICE STUDIES

RESEARCH 10:1 REPORT

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Cases in Public-Private Network Collaboration and Service Innovations

Megaflex

Center for Service Studies Roskilde University EU 7th framework program ServPPIN project

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Editor

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Preface

Centre of Service Studies at Roskilde University has participated in a project in the EU 7th framework program about public-private networks and service innovation(ServPPINs) (the ServPPIN project).

The research question investigated by the ServPPIN project is: What is the role ServPPINs within innovation systems and their impact on growth, employment, and welfare? What is their impact on growth, employment, and welfare?

The objectives of the case studies have been:

1. To investigate the role and impact of within ServPPINs.

2. To investigate the character and efficiency of public-private innovation partnerships within services.

3. To assess the impact of the selected ServPPIN projects on public service quality and performance.

The project has investigated four service areas: health care, knowledge intensive services, tourism and transport. Case studies have been carried out in 11 European countries to answer the research questions. In Denmark we have carried out case studies in health care, knowledge intensive services and tourism.

Each case is a network that has led to one or more successful service innovations. In all the cases five research issues have been investigated:

- The context of the innovation
- Five key dimensions in the innovation process:
- 1. Types/process of innovation
- 2. Type of innovation network
- 3. Drivers/Barriers
- 4. Institutional factors
- 5. Impacts and policy issues
- Unexpected results

The case studies may have a general interest since they are examples of public-private networks that have led to service innovations. Therefore, we publish the case studies.

Case Megaflex

1. The case in a nutshell

This case is about a process innovation in a private service firm. The innovation is developed in close cooperation with a municipality. The innovation is new management behaviour in the private service firm that get long-term unemployed people into permanent jobs.

The firm Megaflex provides temporary labour force and solve tasks within manual services of all kinds. It is located in the small town Frederiksværk 40 km from Copenhagen. Examples of tasks that Megaflex has solved are: Boiler cleaning, sorting parts for catalysts, moving heavy objects inside houses, facilities management, cleaning, garden construction and work, transport, repairing of machines. The core competence of the firm is that it can handle almost any task that a client wants them to carry out – it is extremely flexible. If they do not have the competence or the right labour force, they will get it. Their customers are firms. Megaflex does not advertise much, the customers are primarily procured via canvassing and publicity in newspapers. Megaflex has had much publicity both because of its business model and its involvement with municipalities in projects with the aim to get long-term unemployed people into jobs. The firm has about 200 employees, but the number varies with the number of tasks. The firm has branches in Frederiksværk and Copenhagen in Denmark and Malmö in Sweden. The firm recruits labour force in neighbouring countries (e.g. Sweden, Germany and Poland). It thus has a good knowledge about the labour market in these countries and how to find specific labour force.

Megaflex is owned by an entrepreneur. He creates new business and new ways of organising and managing the business. He also has created a large external network with many different actors in the community and the Danish society. He is the key-person in understanding the innovation and the network. Megaflex is formally a manual service firm, however, the core competence of the firm and the innovation project in case is knowledge. The core part of the business model is knowledge about how to solve all types of manual service tasks and the management that can motivate the employees to adapt to different type work tasks. Further, it is knowledge about where to find the right labour force for the single tasks.

The owner of Megaflex has grown up in Frederiksværk and has therefore a wide local network including relations to local politicians and civil servants from the municipality. He is the centre of the public-private network that has led to this innovation.

Megaflex has carried out different tasks for the municipality of Frederiksværk and a network of relations between managers in Megaflex and civil servants in Frederiksværk municipality has developed. Particularly the owner of Megaflex had got good relations to the director of social services (who has now left the municipality).

The municipality had problems with getting long-term unemployed people into jobs. The municipality had several activating programs, however they were not very efficient. The municipality wanted to create a new service to the pensioners of the municipality. Some civil servants led by the director of social services got the idea that Megaflex could employ the unemployed people and maybe get them into real jobs. They contacted the owner of Megaflex and they started to convince the politicians of the idea. The latter was difficult since the political majority in the municipality was ideologically against outsourcing and privatisation. However, since they knew the owner of Megaflex, they accepted the idea. The accept was caused by their belief in Megaflex could do something that the municipality could not do. A crucial element was the Megaflex-owner's local position and that he expresses a big social engagement, which was well-known in the community. He states that the firm must earn money on each project, however he

also want to make an effort to solve social problems in the community thus the profit does not need to be large.

The idea developed into a project that started in 2004. A contract was set up between Frederiksværk municipality and Megaflex in which Megaflex was bound to employ long-term unemployed persons that the municipality referred to the project. These persons should carry out functions in the delivery of garden service and snow clearing to pensioners. The unemployed persons got the usual social grant from the municipality and Megaflex got a sum from the municipality for delivering the service to the pensioners.

Megaflex organises the work. The unemployed persons are organised in team. Each team get a car and one of the persons are nominated as team-leader. The work is planned by a manger in Megaflex. Each team get a work plan every day.

The innovation is how long-term unemployed people are treated by the management in Megaflex. It is a process or organisational – or almost a pedagogical – innovation. The long-term unemployed people are treated as real work force, not as social clients that are forced into meaningless activities as in the municipality. The unemployed people are treated as Megaflex' other employees and nobody can see any difference. Further, the involved managers take a special care of these persons of whom many have social and behavioural problems. Some are immigrants, others are alcoholics, some have psychic diseases, others have been outside the labour market so long that they do not have any feeling for normal job norms. The problems include – besides a wish not to work – not meeting in the morning, leaving the work in the middle of the day etc. The managers in Megaflex receive the new clients by introducing them into the job. If the clients do not want to work, they can sit in the canteen till they get tired. The managers have got a good feeling with the clients and their problems and thus have become good pedagogues. The working team also functions as pedagogical supervision. The work community (cf- Lysgård 1972) functions and the social control and education is efficient. If a team member does not come in the morning, the team drives home to this person to ask him why he has not come because they will miss him in that day's work. The result is that the unemployed people feel that they are in real jobs and they learn the social behaviour that is necessary in a real job. This is something the municipality could never do.

The employed people express that there is a much better atmosphere in Megaflex than in the municipal activity projects. The managers care for the clients, who are considered as real employees, the managers are kind and social, and there is no bureaucratic culture. For example can the teams go home when they have done the job of the day and are not suppose to come to the firm office and sit just for the sake of control.

The management of the firm attempts to learn from the behaviour towards the unemployed, and other employees and to teach the managers in the best attitude and behaviour towards employees in this type of manual service firm. Megaflex has a learning organisation. This behaviour is quite unusual in manual service firms where management mostly is oriented towards the professional management of the work tasks and perhaps some formal HRM effort. This also stresses that Megaflex can be considered a knowledge service firm.

The innovation in Megaflex – pedagogical management

The innovation is a management style that is applied to a new area: getting long-term unemployed people from the public social system into work.

The management style is characterised by the following:

- Treatment of social clients as normal workers:
- *Natural trust in they can do the job as a firm of course will have in any worker they employ (else they would not employ them)*
- A normal, not-clientizing attitude
- *Expectations of the employees do the job the social control of that is handed over to self-managing teams*
- Focus on the job
- Attention to special problems that these clients may have
- Have a talk with the employees
- Support the employees, for example give them leave some hours or a day if that can solve problems
- *"Teacher" behaviour to the municipality: Discuss regularly how the social clients are doing*

with civil servants

- Job creating attitude: Attempt to get the social clients into permanent jobs
- Organisational learning: Passing experiences to other managers in the firm The attitude and behaviour is attempted to becoming explicit, general and formulated in internal training programs thus it becomes a service product that can be sold on the market (eventually via public private network relations)

The result is that quite many of the formerly unemployed people get a real job after a period in this project, either in Megaflex or in one af Megaflex' client firms.

The project has been a fairly profitable business project for Megaflex. Manual service firms have permanent difficulties in procuring labour force and this project is a channel to procure new labour force to Megaflex and its client firms (of which many are manual service firms). For the municipality the project has been a success because a number of long-term unemployed clients have got a permanent job.

This project leads to further projects in collaboration between Megaflex and some of its client firms and the municipality of Frederiksværk and other municipalities. The same project idea is repeated in other municipalities that have heard about this innovative project via their colleagues in Frederiksværk. The Danish municipalities have got new tasks. Now they not only have the social task of taking care of long-term unemployed people, but they also have got the task of employment service. There is currently (2008) a lack of labour force in Denmark, particularly within private and public manual services. Megaflex has good contacts to and knowledge of the near foreign labour markets (Sweden, Germany, Poland and the UK). They can be used to find foreign labour force. Also other types of projects that can lead unemployed people into jobs than garden services to pensioners have been developed in cooperation with other municipalities. In this way do the networking between Megaflex and municipalities lead to the innovation is diffused and new services are developed in a kind of after-innovation (cf. Sundbo 2008).

2. The context

This case must be seen in the context of labour market policy in Denmark. The Danish government, as others, want to improve employment and get all people into work. This is caused by the social wish to have all people – at least those who want it – employed and the economic motive to save public money by avoiding to pay social cash benefit to the unemployed people. Some unemployed people are short-termed unemployed and the situation is caused by structural or conjectural fluctuations. These people are paid a particular unemployment benefit, which in principle is an insurance system. Although the state contributes to the cash benefit, people save in private unemployment-insurance systems. These insured short-term peoples' unemployment is considered a labour-market issue and generally not as much a problem of the competencies and will of the unemployed people as a structural problem. Some people are long-term unemployed. People can get the unemployment benefit for a given period. If they have not come into work after that period, they do not receive more unemployment insurance benefit. Other people are not insured at all. These two groups of people are considered in a different situation than the insured people that still have the right to receive unemployment insurance benefit. It is defined as a social-policy issue and is a public matter. The situation of these people is considered more caused by their personal competencies, whether professional or personal competencies. Some of these persons have no professional competencies or competencies that are not demanded. Others have personal problems that affect their personal competencies. They may be alcoholics, mentally or physically sick or have a social background that in other ways do not give them a normal job behaviour (such as coming to work at the time every day, be able to work physically or mentally etc.). These people have difficulties in finding a job and must be helped by the public sector. The help can be to find a job they can fit into with their social and competence peculiarities. These peculiarities can be more or less extreme and be smaller or greater barriers to functioning in a normal job. The most serious cases are supposed to need a kind of social job management. In Denmark these people are divided into five groups (called match 1-5) according to how great difficulties they are supposed to have in functioning in a normal job.

The handling of these long-term unemployed people is allocated to the municipalities. In the municipalities the responsibility of this group has been allocated to the social departments that generally not have been oriented towards labour market policy. They have not had the task to find job for unemployed people and have not had relationship to firms. The task of finding jobs for the short-term unemployed people has been placed in a particular state system of job-recruitment offices. The task of getting the long-term unemployed people into work has thus been allocated to a municipal system that has been oriented towards giving people permanent social benefits and which has no traditional relations to firms. This system has had difficulties in getting the long-term unemployed people into jobs.

Recently has a new system, which unites the labour-market job recruitment functions and the social-policy functions been introduced. This system is based on so-called job-centres, which are dedicated to both short-term and long-termed unemployment. The job-centres are a mix of state agency and municipal department. This mixture of responsibility and hierarchy creates problems in the job-centres. The job-centres were introduced after the innovation we have studied was started, however, they may play a role for the future diffusion and development of the innovation.

The basis for the innovation and Megaflex' collaboration with Frederiksværk municipality was the difficulties that the municipal social-departmental system had in finding jobs to the long-term unemployed people. These difficulties were partly caused by the lacking relations to firms and normal job spheres and partly by these municipal systems had pedagogical problems in learning the long-term unemployed to carry out a normal job in a normal manner.

3. The five key dimensions

1. Types/process of innovation

This innovation can formally be classified as a process innovation. However, it is not development of new formal production processes or similar, but what is called a pedagogical development. This case may lead to suggesting a new formal type of innovation, which could be called a behavioural innovation. It implies new attitudes, behaviour and learning and is difficult to place in a formal classification scheme (such as for example architectural, formal, ad hoc etc. innovation).

The innovation is driven by the culture of the private firm and particularly by the owner's emphasis on this culture. Thus, the innovation is based in entrepreneurship.

2. Type of innovation network

The network is typically entrepreneur-centred. The owner of Megaflex has the relations to civil servants and politicians in the municipalities and to his client firms (that may employ the formerly unemployed people). A crucial condition for the existence and success of the network is the owner's general social attitude.

3. Drivers/Barriers

A driver has been the entrepreneur and the fact that he has grown up in the community and thus knows many people, also in the municipality administration. Another driver has also been that the director of social services in Frederiksværk municipality has been a corporate entrepreneur and struggled for the project in the municipality (where the political majority is against outsourcing of public tasks). The driver has been that two entrepreneurs, one in the private, the other in the public sector has found each other and could cooperate (which often not is the case to two entrepreneurs).

A barrier to the diffusion and further development of the innovation has been the economic cycles in combination with institutional set ups. Since there in Denmark since 2004 (at least until 2008) has been a lack of labour forced, there are very few long-term unemployed people, at least very few that are able to work. The public support system is bound to long-term unemployment based in social problems. Since there are few such people, the economic support from the public sector stops. This shows that such an innovation can be bound to a particular period of the economic cycle (cf. Kondratiev 1935). The project in cooperation with Frederiksværk municipality has stopped in 2008 based on this fact.

Another cause is also that the director of the social services in Frederiksværk has left the job after a restructuring of the Danish municipalities in 2005 where Frederiksværk was merged with another municipality. A barrier to further development of an innovation can be that a driving entrepreneur leaves the network.

4. Institutional factors

The institutional public framework for promoting long-term unemployed peoples' return to permanent jobs is a condition for this innovation could happen. The institutional failure of this system in Denmark, i.e. that municipalities not can generate real jobs and thus get few experiences in managing these people into real jobs and learn about how to teach them good job behaviour has been a main cause of this specific innovation.

The above conclusion about barriers demonstrates that institutional factors in combination with economic cycle fluctuations also can be a barrier to innovation. However, in 2008 a shift in economic cycles with a recession has emerged and this may make this innovation relevant

again. Megaflex has already because of the owners' large network started negotiating about similar projects with a couple of the neighbour municipalities.

5. Impacts and policy issues

The case shows that private service firms can solve social problems in a more efficient way than public institutions, and they can even make profit. The private firms are often more innovative because they dare to be it; they are not afraid of the politicians and political reactions. More social problems could be solved via such public-private networks. The condition is that the politicians and public civil servants dare to leave the solution to a private firm and that the private firms have a social engagement; further that there is a trust in the network.

4. Unexpected results

1. Symbiotic networking between public institution and private firms both has collaborative and competitive aspects

This case has demonstrated that innovation is also a political process. In the late phase of the development of the case an interest conflict between a new public job centre and Megaflex has evolved. An element of the restructuring of Danish municipalities in 2005 was establishment of public job centres with the task to create jobs and to procure labour force that firms and public institutions need. The new job centres that were established in 2005 were based in municipalities. They have both the task of getting long-term unemployed people that receive social cash benefit into jobs and general employment service. They find jobs even for short-term, unemployed people and they find the right labour force for firms. The job centres are partly municipal and partly state-based. This construction makes them a part of the municipality, but more independent. These new job centres get their own interest and the employees and managers of the job centres get an interest in keeping their own jobs.

Firms like Megaflex are by the job centres considered collaborative partners. The job centres can use such firms as buyers of the labour force and they can learn from private firms' way of integrating the labour force. The new job centre in Frederiksværk uses Megaflex and other firms for both purposes. The job centre also intends to use Megaflex and other firms with good contacts to foreign labour markets to procure labour force in areas where there is a lack in Denmark (which particularly is within public and private manual services).

However, the personal network relation between the leader of the new job centre and the owner of Megaflex is not as intense as the relation between Megaflex and the former director of social services in Frederiksværk was. The new job centre does not particularly utilise the special competence of Megaflex. They intend to use Megaflex' relation to foreign labour markets, but have not yet done it. They express a positive attitude to projects like the one described in this case, however Megaflex has no preferential position.

Managers in Megaflex expresses a view of the new job centre does not collaborate much with Megaflex because they want to carry out the tasks themselves to keep their own jobs. This may be true or not, but whatever it expresses that a negative or competitive attitude can easily emerge in a network. This attitude can be enforced by the often implicit general attitude towards outsourcing public functions or not that both public and private actors may have.

Public-private networks includes the risk of conflict or competition because of the innovative activities involves resources and jobs in the public institutions and the firms. Such conflicts can be a barrier to solving the problems (in this case to get long-term unemployed people into real jobs) and further innovation.

2. Ideological exceptions

A traditional issue concerning public-private collaboration is the ideology. Typically that private firms want to produce and deliver the service and argue in an ideological discourse of private firms deliver the most efficient and best quality service and politicians believe in services should be produced and delivered by the public sector. The ideological positions have been loosened the last decades, for example in Denmark by a principle of the public sector (e.g. municipalities) defines the service standard and private service firms produce and deliver the service. This position has in Denmark been launched by the governments. Not all local political institutions such as a municipal council accept that. For example is the council of Frederiksværk, which is an old industrial town dominated by left-wing ideology and outsourcing is generally not politically acceptable. In the self-understanding of the politicians and the administrative leaders, the municipality of Frederiksværk does not outsource service production. However, in the interviews they mentioned a series of examples of outsourcing. Reality is different from ideology, which is not a new observation. What this case study could show is how the politicians in their discourse of a concrete case defend outsourcing and collaboration with private firms. This can bring an insight into the mechanism of increasing public-private collaboration.

In the case we have studied the politicians and the leading administrative leaders in the municipality explain that this case is an exception. Megaflex can really solve problems that the municipality neither can nor is allowed to solve. Further explanation is the long-lasting and close network with Megaflex and the owner's clear social engagement. The history of the case demonstrates that it was the former director of social services who was the internal driver of this innovation. The politicians were not drivers, they only accepted the collaboration with Megaflex and the innovation. When the internal entrepreneur and driver disappeared, the politicians did not actively care for this case and the network. They are not against the collaboration, but it has no high priority. However, the innovation is so successful on solving the concrete problems that other municipalities adopt it.

This case demonstrates that ideological inertia still plays a role and that public-private network based service innovations often need to have an internal sponsor (cf. Pinchot 1985) to break the ideological inertia. The ideological inertia can be broken in concrete cases where an exception discourse can be defended by the politicians.

5. Discussion

Innovative success of public-private networks

This case shows a public-private network that is more innovative than public institutions have been. Welfare problems (employment of long-term unemployed people) have been solved. The public-private network thus is successful in creating innovations that solve welfare problems. However, the network is weak as a network. The positive public-private relationship falls apart if just one of the central entrepreneurs leaves the network.

Pedagogical "soft" managerial innovation as a type

This case demonstrates that the traditional categories of innovation may be too limited to categories service innovation because they are developed within a manufacturing framework. The often cited categories from Schumpeter (1934) of product, process, market and raw-material innovation should be extended to really grasp the essence of certain service innovations. It might even be that within the manufacturing framework new categories should be developed.

The innovation in Megaflex is a new behaviour and attitude that managers have developed. It is a pedagogical or cultural innovation. It may be classified as a process innovation, but it is very different from for example introducing a new catalyst in a chemical production, which also would be classified as a process innovation. It may be characterised as an organisational or managerial innovation (cf. Sundbo 1998), which has recently been recognised as a category and used for example in the CIS surveys. This type of "soft" innovation is particularly comprehensive in public-private collaborations since much public activity is of the "soft" type, for example social care, education, preventive health care and society management such as taxation, legal systems (including crime prevention) and implementation of political decisions.

A problem is to formally characterise such "soft" organisational and managerial innovations, which can be very complex, for example in research projects. As many other service innovations (including product innovations) it often appears rather "fuzzy". It is also difficult to prove that it really is new and thus an innovation. The patent system that should assure this is not used. However, one may attempt to characterise the innovation as exact as possible and emphasize if it is new in the situation of public-private networking (even if it should have been used before in for example a pure private framework).

The "soft" organisational and managerial innovations can not be rejected as unimportant, uninteresting or formally outside what the research will include in the study objects, particularly not when studying public-private networks. This type of innovation is important and as demonstrated in the Megaflex case can solve serious problems that the public sector is not able to solve. It is therefore important to work with measurement and scientific expression of such innovations in research.

The importance of entrepreneurial fit in the network

The case also demonstrates the importance of entrepreneurs in public-private networks. The owner of Megaflex is a typical entrepreneur. He creates new businesses and has gone bankrupt once and started a new business again. He has been a primary driver of this network. He is also a network-builder, which is quite usual to entrepreneurs (e.g. Johannisson 1987). Entrepreneurs establish ego-centred networks with themselves in the centre and include other people that are useful to them. These other people may or may not have relation to each other. In this case the network-members from the municipality of Frederiksværk have relation to each other, and a few of them have also relation to people from the other municipalities with which Megaflex has established new collaborative projects. Other members of his network have no relations to the rest of the network except to other managers and employees in Megaflex.

The particularity of this network is that it is a public-private network and this type of network has its particular problems that must be overcome before an innovation can be successful. One of the problems is the politicians' ideological resistance and scepticism towards outsourcing public services. Another problem is the lacking tradition for outsourcing in municipalities, which also means that the civil servants have no experience in negotiating and networking with private firms. There are barriers to be overcome from both sides. A network may lead to collaboration and common innovations, but it may as well lead to conflict and no results. As Homans (1951) has theoretically formulated it, whether the interaction in a group leads to positive or negative sentiments between the group members depends on their fundamental attitude towards each other. One could add that it is possible to do something actively to ensure positive sentiments and thus a collaborative attitude and results, for example in form of innovations. This is the case in the public-private network we have studied in Frederiksværk.

The reason why this is the case is because of a fit between the two entrepreneurs in the network, the owner of Megaflex and the former director of social services in Frederiksværk municipality. First, there are two entrepreneurs, one in the public sector and one in the private firm. They both break new ways and struggle to realise the project. This is a condition for innovative success. However, in a public-private cooperation it is not enough that there is two entrepreneurs who strive for realising a project. That might lead to negative reactions (cf. Homans' interaction

theory). A better guarantee for success is a situation where there is a private entrepreneur who strives to realise the innovation project and a sponsor (supporter of the idea without taking the ownership) in the public sector. If this person in the public sector is an entrepreneur, there is more power in the effort because an entrepreneur is more engaged than a sponsor. On the other hand is the risk of conflict larger because an entrepreneur may more efficiently convince people, but he may as easily estrange people. A particular problem is if such an entrepreneur can cooperate with the private entrepreneur. Entrepreneurs are generally strong and ego-centred personalities thus there is a great risk of clash in stead of cooperation between such two entrepreneurs. However, if such two entrepreneurs can cooperate – if their temperaments, attitudes, interests and what else is needed fit with each other – or the person in the public sector plays the more restrained role of a sponsor there is a basis for breakthroughs in public-private networks, which can lead to innovations.

In this case there has been such a fit between the two entrepreneurs in the two sectors and that has been a crucial factor in the success. After the director of social services has left Frederiksværk municipality the network has remained, but the innovative activities have not been as intense. The fit between one entrepreneur in public sector and one in the private sector may not be a necessary condition for success of public-private innovative networks, but it promotes the chances for success.

Modulising the service

Services have traditionally been individual to the individual customer and service innovations have been the solution of a specific problem which has not been reproduced to solve other problems. This situation means that a service firm will not gain from its innovative effort. It may earn money from the innovation, but since the innovated new service only is used once, the profit will be small. To really make profit, the innovation must be reproduced (e.g. sold in many copies if it is a service product) thus the firm can get its investment return. This can be done by making the new service product (or process) a standard that can be sold to other customers.

Standardisation of services thus they can be reproduced is a fundamental issue in service production and service innovation (Sundbo 2002). Maybe the service can not be totally standardised, but it can be semi-standardised thus it can be adapted to new situations by maintaining the main principles and many elements. Several elements can substitute each other and thus make it possible to have a standardised and rational production and nevertheless deliver different services to different customers. These principles have been called modulisation (Sundbo 2002).

Megaflex has invested much time in developing the management-pedagogical innovation that we have studied. They manage afterwards to sell the same concept to other municipalities and thus get a benefit from having innovated. The management-pedagogical method becomes general and reproduced. It may be standardised, but it may also be that it must be modulised, i.e. that the method and contract with municipalities must be adapted to every new municipality, but the fundamental principles will be the same as those developed in the described innovation project.

Further, only by reproducing the service, this innovation will have a big social effect in the society.

The further sale and development of the innovated service is carried out in a public-private network. The neighbour municipalities only buy the service when they via their network with other municipalities, in this case Frederiksværk municipality, have been told that Frederiksværk hold the innovation for a success and that Megaflex is a firm that municipalities can trust and cooperate with. However, this network is not as strong and entrepreneurship-oriented as the first network between Megaflex and Frederiksværk municipality. It still is characterised by a pioneering spirit, but not by the struggle for breakthrough of an innovation.

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