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Developing a Regional Service Cluster. Case: Setting Up a Social Affairs and Health District in Päijät-Häme, Finland

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Volos, Greece August 30th September 3rd, 2006

**DEVELOPING A REGIONAL SERVICE CLUSTER. CASE:
SETTING UP A SOCIAL AFFAIRS AND HEALTH DISTRICT IN
PÄIJÄT-HÄME, FINLAND.**

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Abstract

Finland as a society is facing major challenges due to an ageing population and the financial difficulties of municipalities. Therefore, Finnish municipalities are forced to develop new methods to maintain the good quality of public services. In this paper, we argue that the most efficient method of achieving this is to develop a regional service cluster, which means radical changes in the role of the municipality. Instead of producing all the services themselves, municipalities should act as leaders of the regional service cluster.

In this paper, we have defined the framework for regional service cluster. Four elements in particular are critical for the functionality of the regional service cluster: 1) the municipality as network leader, 2) service production is organised according to process management, 3) different service providers are seen as cluster actors and 4) customer orientation should be the base. In this article, the future Social Affairs and Health District in Päijät-Häme, Finland, was used as a case example. The main results were that separating operative and strategic decision-making is challenging and the future district should be more focused on getting different cluster actors committed to the project.

Nevertheless, the district has taken the essential steps to be a customer-oriented organisation, for example, the integrated services chains are good examples of process building.

Key words: regional service cluster, social affairs and health district, network leader, process management

1 INTRODUCTION

In Finland, the welfare state has been the prevailing ideology in recent decades. The public sector has had the task of taking care of the wellbeing of the citizens, but this ideology will meet enormous challenges in the future. In connection with the welfare state expansion since the 1960s, and as a consequence of the depression at the beginning of the 1990s, as well as the ageing population, the duties of the municipalities have increased (Anttiroiko *et al.* 2003, 45). Simultaneously, the state has shirked its responsibility for funding the municipalities' statutory welfare services. The economy in many municipalities has been in crisis since the beginning of the millennium.

The environment of the municipalities is changing considerably in an unpredictable way. Globalisation, ever tightening competition, the centralisation of the economic growth and socio-economic, demographical and technological development trends affect the municipalities' operations. The imbalance of municipal economies and the ageing population are forcing the municipalities to apply completely new operation models to maintain a satisfactory municipal service system. The municipalities as producers of basic welfare services are now facing a radical change and a thought model of the service structure as a mosaic of public, private and third sector services has emerged (see eg. Harmaakorpi *et al.* 2004). The extensive pressures on public expenditure can be relieved by turning around the declining productivity of the public sector, which is also the goal set by the Finnish government. The government has already begun some measures to maintain rationally high level and equally accessible welfare services. For example, the national reform of the municipal and service structure aims at guaranteeing a strong economical and structural base for the services for which the municipalities are responsible.

In this paper, we argue that the most efficient way to maintain good quality services at reasonable cost is to develop a regional service cluster. Therefore, the aim of this study is to create an operating model for a regional service cluster. The Social Affairs and Health District in Päijät-Häme, Finland, is used as a case example to test the functionality of the framework.

The main research questions are:

- 1) What kinds of action and rules should the regional service cluster pursue?
- 2) How the service cluster should be governed?
- 3) How many similarities there are between the service cluster model and the Social Affairs and Health District project?

In this article by municipality we refer not only a single municipality but also to federation of municipalities or some other consortium.

2 REGIONAL SERVICE CLUSTER

2.1 The Definition

The terms 'cluster' and 'cluster policy' are subject to a wide variety of definitions, making analysis difficult. The original formulation of clusters by Porter (1990) has influenced most subsequent practical definitions by policy-makers, but it remains difficult to clarify what policy-makers understand by "cluster". Porter's traditional definition of cluster is "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities..." Still, there has been no underlying, unifying theoretical consensus on what constitutes a cluster (Feser 1998). In general, cluster can be defined as a system of interconnected firms and institutions whose value is greater than the sum of its parts. Nonetheless, according to Porter clusters represent a new way of thinking about national, state and local economies, and they necessitate new roles for companies, government and other institutions in enhancing competitiveness. The Porter's cluster theory concentrates, in particular, on the industrial or business cluster. Nevertheless, Porter's ideas have been later transferred to serve different industries as well. Therefore, new kinds of cluster are been developed in different sectors, for example, Catalan Health Cluster in Spain,

Biotech Cluster in France, Wellbeing Cluster in Austria (see more on The Competitiveness Institute).

'Cluster' and 'network' are closely related terms. In fact, the cluster theory provided a way to connect theories of networks, social capital and civic engagements more closely to business competition and economic prosperity. The cluster theory identifies who needs to be in the network for what relationships and why. Clusters offer a new way of exploring the mechanism by which networks, social capital and civic engagement affect competition and market outcomes. The cluster theory may also reveal how network relationships form and how social capital is acquired, helping to unscramble questions of cause and effect. The cluster theory then helps illuminate the causes of network structure, the substance of network activity and the link between network characteristics and outcomes. Interconnections and spillovers within a cluster often influence productivity growth more than does the scale of individual firms. (Porter 1998).

The idea of a regional service cluster combines elements of network and cluster theories. A regional service cluster means a network of multiple actors, operating in regional service structure. A service cluster fosters the quality and productivity of services. The most essential key is to exploit the dynamics of networking. The ideal situation is that the service cluster is an entirety of public services that can exploit synergies, positive externalities and advantages of scale economies. The service cluster consists different operative service providers, enterprises, support agencies, institutions, such as governmental agencies, research institutions, universities and technological units. The service cluster has characteristics from both geographical and core competence clusters: it is concentrated on a specific area and centred around a core activity to which all the actors are related. Indeed, the service cluster should exploit the resources of the area and the core activities and supporting services need to be defined.

The goal of the service cluster is that different municipalities and their multiple actors will work together and exploit resources, including the latent ones. The service cluster has both horizontal and vertical dimensions. Horizontal clustering means that municipalities are strengthening their co-operation. For example municipalities and their joint authority and a federation of municipalities are combining their resources to produce services in a

wider geographical area than just one municipality. In practice, this can mean that municipalities create a common foundation or some other institution to organise some specific services. In turn, vertical clustering signifies that besides municipalities multiple actors from different sectors are taking part in producing public services. These actors can be, for example, non-governmental organisations, voluntary work, enterprises, research institutions etc. It is essential to take into consideration both horizontal and vertical aspects of clustering when developing and analyzing the elements of the regional service cluster.

2.2 Relationships in the service cluster

The recent trend of relationship development between municipality and private actors in Finland is proceeding towards either a buyer-seller or standard supplier relationship. A typical characteristic of buyer-seller relationships is that buyers usually pursue competitive relationships with suppliers that provide standard or lower-value items or services in a supply market offering substitutable products and services with low supplier-switching costs. Such a relationship can be described as a competitive relationship (Trent 2005, 54.) The suppliers' position depends on what rare or high quality products it can offer the key firm. Therefore, its position can vary from tendered service producer to strategic partner. (Pihkala *et al.* 2005)

The standard suppliers' position can be compared with the bulk production as it can be easily changed and replaced by its competitor. The key firm buys standard products or services so there are plenty of alternative suppliers. The exchange is experienced and smooth, but not very deep. The exchange process does not start until the invitation for tenders. The main selection criterion is the price. In this kind of standard supplier relationship there is no element of pure co-operation. (Pihkala *et al.* 2005.)

At the other end of the scale is the strategic supplier. Its importance to the key firm's competitiveness is that the need for co-operation is mutual and it is worth effort. When ideal such relationships can be treated as partnerships. (Pihkala *et al.* 2005) There are different definitions for partnerships. According to Trent (2005) a partnership involves a limited number of suppliers that provide items or services essential to an organisation's success. A willingness to work jointly to identify new and better ways to operate or

compete in the marketplace is characteristic of such a relationship. This represents the most sophisticated and intensive relationship possible between a buyer and seller. There is a mutual effort to develop the relationship, such as joint-strategy development sessions, and an intensive sharing of resources. The parties ideally share a co-destination and recognise that the value they receive would be far less if the collaborative relationship did not exist. Brinkerhoff (2002) defines the partnership as a dynamic relationship among different actors, based on mutually agreed objectives, pursued through a shared understanding of the most rational division of labour based on the respective comparative advantages of each partner. He continues that partnership encompasses mutual influence, with a careful balance between synergy and respective autonomy incorporating mutual respect, equal participation in decision-making, mutual accountability and transparency. Dobler (2002) emphasises that a partnership relationship demands at least sharing the cost structure information.

As we already briefly mentioned, so far municipalities' relationships with different actors has been far from the partnership or even from the strategic supplier relations. The common practice is to use the tendering process. The model of competitive tendering is based on a performance-cost principle where the service producers compete to provide the specific services planned by the orderer at the lowest possible unit cost. The tendering service production includes several problems related, for example, to the service producer's commitment to produce quality services and develop them. (Pihkala *et al.* 2005.)

The main challenge for the municipalities is to understand that not all relationships are equal in value. In the business sector a common strategy is to differentiate supplier relationships and understand when and where to apply the appropriate relationships. In fact, the supplier relationship management should be an increasingly important part of the organisation's strategic planning process. (Trent 2005.) Similar supplier relations management should be practiced in the municipal sector as well instead of using a simple competitive relationship with each supplier which is currently the practice.

2.3 Municipality's role in the service cluster

The service cluster's core activity has to do with the municipality's role and activities. Traditionally Finnish municipalities have held two positions at the same time: Producing all of the legal municipal services themselves and having ownership over the service production, including owning instruments, real estate, controlling the customer interface and developing the services. As already mentioned in the introduction, the traditional role is no longer possible. The whole model of the service structure is facing changes. The recent trend in Finland has been to develop different kinds of purchaser-provider-model with the idea that municipalities will order their services and other agencies will produce them. We argue that these models do not actually resolve the problem nor are they a really effective way of producing services. On the contrary, municipalities' core activity needs to be developed more as a coordinator role and towards understanding the changing nature of customers and customer relationship management.

In other words, municipality's role in the service cluster is:

- Activator of the clustering process
- Coordinator of the whole service production network
- Understanding the nature of customer and customer relationship management

Activator of the clustering process. The responsibilities of the activator role include combining the random actors of the field, recognising the business opportunities, increasing the region's development and research capacity and strengthening it, taking care of innovation activities and rethinking the activities of the public sector by, for example, directing the education policy to serve the cluster and provide risk money. It seems that the activator role requires the capacity to link different actors. In addition, the cluster activator –later cluster leader - should act as a partnership helper, by being the contact point, collector of the core group actors and binding the actors. This role also demands municipalities rethink their current supplier relationship strategies. In the business clusters it is a common habit that at least one large firm functions as an anchor company. Such firms tend to support cluster development by acting as magnets for other major companies. (Andersson *et al.* 2004.)

Coordinator of the whole service production network. The coordinator role will be presented later in this study. Wallenklint (2003) in his studies has separated two different kinds of network manager's roles: broker and the coordination unit/strategic centre. Broker is defined as "the broker acts as a coordination of the actors, activities and resources within the network, and is first and foremost a member of a network". On the other hand, Wallenklint described the coordination unit/strategic center as "a coordination, leader, rule setter and capability builder in the network organisation, as well as being in charge of structuring and strategizing in the network organisation, and not necessarily a member of the network organisation."

Understanding the nature of customer and customer relationship management. The customers in the public sector are diverse and act in various roles. For example, in the social and health services, the customer is often a complicated customer chain, including a separate orderer, service provider, financier, and end user. The services are produced together with the customer, the user. In fact, the customer is a part of the "product". One might even ask does there really exist a concept "customer" in the case of public services. (Pekkarinen *et al.* 2006, 15.) However, the system should be developed more based on customer need and the customer's choices should be enlarged. In the business sector, a customer-driven way of working has been created for long time ago. In fact, Hammer (2001) argues that the process is the way in which the abstract goal of putting customers first gets turned into practical consequences.

Table 1 illustrates the municipality's tasks as the service cluster's activator and leader. Internal and external efficiency define what rules and criteria the service cluster should follow.

<p>Performance of the network</p> <ul style="list-style-type: none"> - Defining different producers relationships, creating partnerships - Resource allocation, developing know how - Market connections - Creating functional processes 	<p>How (internal efficiency)</p> <ul style="list-style-type: none"> - Productivity - Comparable - Accountability - Innovativeness - Efficiency - Win/win-feedback
<p>Leading the network</p>	<p>How (external efficiency)</p>

<ul style="list-style-type: none"> - Start-up, maintenance (vision, strategies) - Developing: mutual learning, finding the right people - Choice of services and prioritisation (inc. "ownership guidance") - Customer relationship management 	<ul style="list-style-type: none"> - Democracy - Transparency, openness
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Table 1. The task of the network leader and the way of acting

Internal efficiency means how the service production network should work; for example, there should be tools that continuously motivate to develop better methods, and the performance of service providers should be comparable. Win/win-feedback refers to finding common goals for different cluster actors so that they will be committed to developing the work also in the longer term. Democracy and transparency are essential to be a customer-oriented organisation.

3 CASE: SETTING UP SOCIAL AFFAIRS AND HEALTH DISTRICT IN PÄIJÄT-HÄME, FINLAND

According to the Finnish constitution, it is the duty of the public authorities to promote the health of the population. The provision of health care services in practice is the responsibility of the municipalities. Health care services are financed primarily out of tax revenue. Finland is divided into 20 hospital districts. So far, social services have been run under different organisations. In the Päijät-Häme region there is a pilot project underway that attempts to integrate social welfare, primary health care and special health care. In fact, the Päijät-Häme hospital district will be transformed into a new organisational structure that includes all the services of social affairs and health. The name of this is Social Affairs and Health District. The objectives of the new district are:

- Ensuring the availability of research, health care and social services
- Controlling the increase of costs

- Ensuring the availability of personnel in the face of an impending shortage of labour, and allowing the personnel to get involved in the preparation and implementation of the change
- Ensuring the use of a uniform database for patient and customer information, including systems used by social services, and the unrestricted use of customer information across conventional organisational borders
- Developing permanent co-operation models for working with the third sector and the private sector

The guidelines for the reform were:

- To produce the same services for inhabitants regardless of their domicile
- Services are organised in different levels
- Organisation structure is clear and simple
- Subscribers and providers can be separated from each other
- Elected officials make financial decisions and guidelines for the service production and define the service selection
- Operative functions are run by professionals

The social and health care reform is a pilot project in Finland and is financed by the Finnish Ministry of Social Affairs and Health. The project has been ongoing since spring 2005. It is a joint project of 15 municipalities of Päijät-Häme. These try to develop ways to arrange and produce services beyond the municipalities' boundaries. The Päijät-Häme region is situated in Southern Finland, about 100 km from Helsinki. The region has about 210,000 inhabitants. The planning process began during spring 2005 and the implementation process will start at the beginning of 2007. Nonetheless, it is a long-term project which will take several years to really implement it properly.

The project started by dividing services into different levels:

- Local services: municipality, village, suburb
- Regional services: several municipalities together, social and health areas
- Centralised or commonly organised: social affairs and health district
- Acquired from national service providers:

Nevertheless, perhaps the most important but difficult reform is to integrate the social affairs and health service. All of the changes mentioned are not possible without thinking about the role of the municipalities themselves: what services they should produce, how to produce them, what their core activity is and how to arrange the support activities.

So far, the organisation structure of the future social and health care district is as follows:

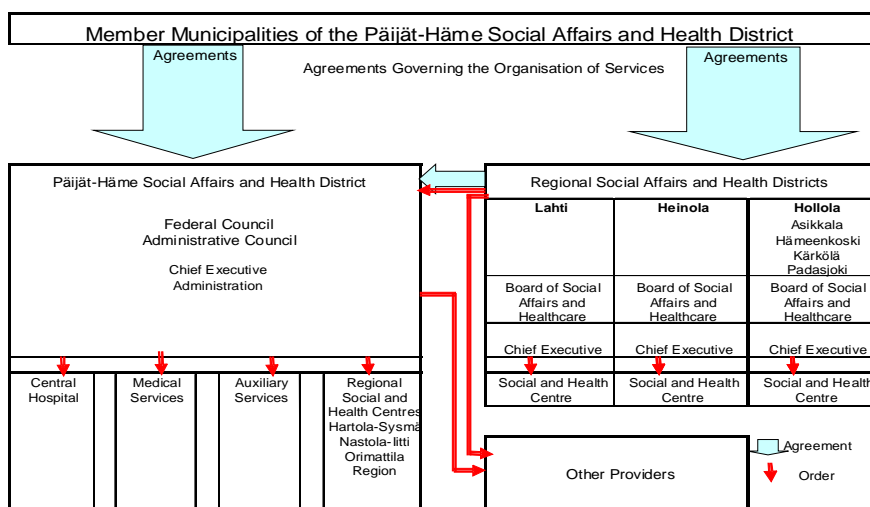


Figure 1. Päijät-Häme's Social Affairs and Health District

The main idea of the social affairs and health care district is that it is a flexible structure giving the municipalities' freedom to choose how to arrange their services. So far, eight out of fourteen have chosen to transfer all of their social affairs and primary health care services to the Päijät-Häme's Social Affairs and Health District. Still, there are three Regional Social Affairs and Health Districts each comprising various municipalities. The structure gives the municipal sector the role as leader of the service production on different levels:

- Päijät-Häme's Social Affairs and Health District as network leader: coordinating the production of the centralised services

- Each Regional Social Affairs and Health Districts as network leader: arrange regional level services together with different municipalities and other actors in the region
- Individual municipality as network leader: can arrange the local services alone or together with other neighbouring municipalities or transfer the arrangement to the Päijät-Häme's Social and Health District

The service providers can be different actors, including public, private and non-governmental organisations. Therefore, they can be, for example, public hospitals or health centres, public utilities, small firms, national health care franchising companies, voluntary organisations, research institutions etc. The most essential element is that the purchasers and providers are separated. This way, the purchasers can compare different providers' behaviour and results.

As mentioned, eight out of fourteen municipalities have decided to transform all of the social welfare and primary health care services directly to the Päijät-Häme Social Affairs and Health District. These municipalities can be considered pilot cases, which other municipalities will follow carefully. In practice, the goal is that with time the whole Päijät-Häme region will be under the Päijät-Häme Social Affairs and Health Districts. Therefore, the Regional Social Affairs and Health Districts are only intermediate steps because not all municipalities were willing to immediately transfer the services out of their control.

Furthermore, the organisational structure offers one more radical change to the present system: strategic and operative management/decision-making should be separated. So far, according to the plans, there is a federal council and administrative council. What their exact roles are has not yet been defined nor has how the members are selected.

Besides the organisational structure, radical changes to the actual treatment procedures/service chains are taking place. There are also the following sub-projects:

- Care and service processes
- Promotion of health and social welfare
- Emergency care and patient transportation

- Information systems for social services
- Information systems for health care
- Organisation, training and communications

The most challenging is the integration of care and service processes which mean that the objective is to build a patients' integrated service chain including both current services of social affairs and health. Information systems changes mean, for example, electronic patient data systems, common data systems for different service providers and new distant service.

4 SUGGESTED FRAMEWORK FOR THE REGIONAL SERVICE CLUSTER

As we mentioned, the municipal sector should act like a leader of the service production when it comes to organising legal welfare services for their inhabitants.

We argue that the most effective way of producing services is building networks among different actors. The examples of the private sector have shown the remarkable effects of networking. For example, Campbell and Wilson (1996) argue that the underlying motivation for network members to organise and integrate activities is to create a competitive advantage for the network as a whole. All members must believe that there will be more to share by co-operating than by remaining autonomous. According to Campbell and Wilson there are three variables that are the most relevant to foster the network: 1) partner asymmetry, 2) specialised investments and 3) trust. (same).

When talking about networks in the context of Finnish municipalities, the enlarged content of the network must be understood. The service provider network includes organisations from the public, private and voluntary sectors. It is irrelevant who the provider is and instead attention should be paid to the service producing process as whole. To manage the network effectively, there must a certain actor whose responsibility is to understand the completeness of the whole network, the different resources, activities and actors.

It is common in the business sector for a network to be built around a key firm. In our view the municipality's role can be compared to a key firm's role as a network leader. The network leader can also be called "network captain" or "strategic centre of the network". This network captain or manager must take control of the network and manage its value-creating abilities in a way that creates synergy between the key players. The regional service cluster also has other actors. In addition, one of the key factors of the service cluster is that it is organised according to different processes. Figure two presents the framework for the regional service cluster.

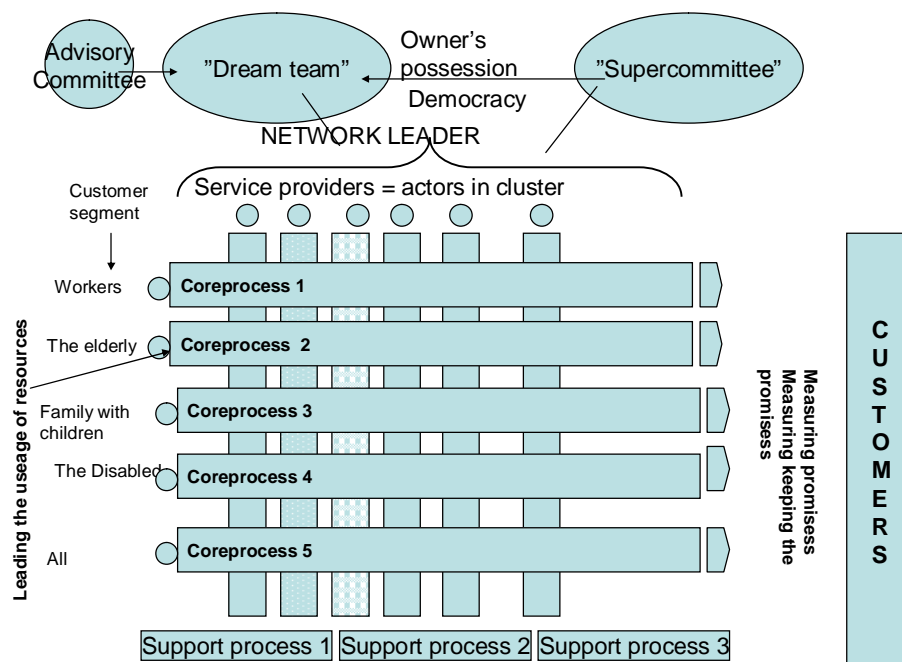


Figure 2. The framework for the regional service cluster

The whole entity is called a regional service cluster. There are four main elements that should be taken into consideration when developing the service cluster: organisational structure, organising the service production, multiple actors in the cluster and customer orientation. The network leader can be a single municipality or federation of municipalities. In our case, the network leader is the Päijät-Häme Social Affairs and Health District that represents the municipalities' interests in arranging the welfare services. The network leader's role is similar to the key firm's role in an industrial cluster.

1) Organisational structure: Organisational structure is simple and is based on the idea of a network leader. The network leader consists of two official elements so that the operative actions are separate from development functions. **Dream team** is in charge of the operative functions whereas **super committee** represents the official decision-making element. Therefore, the dream team's role is to govern the whole functionality of the network, such as taking care of the know-how and sufficiency of the resources. In addition, there can be an advisory committee whose role is to give strategic advice to the dream team concerning issues such as how the processes can be more productive. The advisory committee does not have decision-making power.

The super committee's task is to be the "democratic voice" which means that there are representatives from different municipalities. In addition, the super committee exercises the "ownership power". The super committee decides how much financial resources the municipalities are willing to give to the dream team to make the network work efficiently. In addition, the super committee has the power to control the productivity of the whole network, for example, determining how much costs need to be reduced. The role of the super committee can be compared to a company board of directors.

2) Organising the service production: The actual service production is organised according to process management. A process can be seen as an organised group of related activities that together create value for the customers. Therefore, processes are constructed based on different customer segments.

The person in charge of a process is the process owner. The process owner designs the process, builds the supporting tools, installs the process in different service providers and ensures its ongoing high performance. In the service cluster context, it means that the process owner can use the resources of different sectors; public institutions, private companies and the voluntary sector. The process owner should have some kind of understanding of the big picture, know the customer needs, but most important is his or her knowledge of the process work. According to Hammer (2001) a good process manager should do the following: use tools to identify and close quality, cost and cycle time gaps, manage interfaces with other departments, as well as their own department, implement change and effectively allocate resources. In addition, to be able to manage

the process successfully, the process owner should have enough power and freedom to control the service providers.

Besides the core processes there are support processes which are also essential for the network. A support process can be, for example, payment of wages or marketing.

3) Multiple actors in the cluster: Actors in the regional service cluster are the service providers that represent different sectors. Service providers can be public utilities, private companies, voluntary organisations, national or international trade chains etc. Therefore, the main question is not who is the service provider, be it a private, public or non-governmental organisation. Instead, the service provider should have certain qualities and characteristics that make it an ideal provider, for example, willing to learn, willing to develop and invest to the relationship. It is essential to note that when working together with private service providers, the method is not a tendering process. On the contrary, there needs to be enough long-term contracts provided for the service providers so that they are committed to the work and mutual learning can happen. In fact, the relationship should be like a partnership.

The network leader's duty is to control the whole combination of processes and service providers. In other words, the network leader takes care of activating the clustering process and ensures that the actual effects and advantages of clustering are taking place.

4) Customer orientation: Customer orientation needs to be the base for the service cluster. Municipalities, especially the super committee, possess the actual customer interface. By the latter we mean that the municipalities follow the needs of the inhabitants and try to organise those services that are needed. Sometimes the customer orientation means prioritising what services to produce. In addition, the processes are built to serve specified customer segments. To evaluate the customer orientation certain indicators should be created to measure the promises given to the customers.

5 RESULTS

The service cluster model of service production demands changes in the role of municipalities. So far, Finnish municipalities have been in charge of every part of the service production process. From now on municipalities should increasingly concentrate on their core activity. Municipalities should be responsible for creating the service production network and control the outcome. These functions should be seen as the municipalities' strategic activity. Besides, the municipalities' role includes possessing the customer interface, determining the strategic lines (prioritise what services to produce) and controlling the performance of the service production network.

Compared to the current situation one might claim that the most difficult task is to organise the service production according to process management. So far, each service provider has held the power. Service production has been divided among departments; each has focused on one task and that task alone. In the worst scenario, departments have neither known nor cared what others are doing. Each unit has been speaking their own language and remained aloof from the others. No one has understood nor taken responsibility for the entirety. The new process model, on the other hand, means that an individual department no longer holds the power; instead the process owner possesses the power. Related to this matter, a major challenge is to find the right people to govern the process: they should have experience working in the process chain and understand the whole process, the customer being both the start and finish. Nonetheless, the attempts to integrate the service chain represent customer orientation.

Even though the social and health care reform in Päijät-Häme, Finland, is still ongoing, it is possible to analyse the potential outcome of the project. In the following, we consider the main results so far. Table 1 illustrates the municipality's tasks as a network leader, which should also be the responsibilities of the Social Affairs and Health District.

The future Päijät-Häme Social Affairs and Health District signifies a completely new structure for organising both social welfare and health services. As it is a pilot project, other municipalities are following it closely. It seems that the planning process of the new district started with thinking about the structural questions. The structure itself is

flexible so it leaves various alternatives for municipalities to choose their own service production model.

Currently what needs to be considered more carefully is the process management. The social and health care project has several project plans for rebuilding the patients' integrated chain service chain which can be considered independent processes. In fact, the main objective of the reform is to build a service chain integrating the social welfare, primary and special health care services. The project is cross-municipal and the structure is left flexible enough for new members to join later on.

Another important goal of the project, especially what is also a major issue at the national level, has to do with the data systems. For networks to work efficiently, different actors need to have access to common data systems. The social and health care district project has made remarkable efforts to integrate different data systems or build completely new ones. In addition, there are projects concerning transferring patient record systems to an electronic form.

For the service cluster to work efficiently, the operative and strategic decision-making must be separated. It seems that the decision-making will be separated, although currently there are some unresolved questions. In Finnish municipal politics, the elected officials have traditionally held significant power. The new structure will weaken their power as well as position. Still, it is worth noting that elected officials will have some kind of power, but it is difficult to consider how to find a balance of power between professionals and elected officials.

So far there has not been much discussion concerning the role of the private service providers. In fact, it is merely mentioned that private service providers can produce almost all the services. The main issue seems to be a lack of providers; the market does not exist. This has been an excuse for making little effort to build relationships with different actors. There has been more discussion about the purchasing – providing split. We emphasise the need of the Social Affairs and Health District to really consider defining different service producers. This way the actual clustering can be happen in the future. Related to this, the service providers' commitment should be guaranteed.

It seems that the principles of internal and external efficiency are followed successfully. Indeed, the main objective of the future district is to increase productivity, efficiency, accountability and create tools for comparing different service providers. Nevertheless, we feel issues concerning innovativeness and win/win-feedback should be thought out more exactly. So far the external efficiency –democracy and transparency – can be analysed only in the context of process development. Generally speaking, the development and planning process of Päijät-Häme's Social Affairs and Health District has been very open for inhabitants to follow and take part. Openness has meant, for example, maintaining web pages about the project and publishing all the relevant information, arranging informative briefings for the public. This leads to the conclusion that the district is really attempting to be a customer- orientated organisation.

Our recommendation is that several questions should still be reconsidered. It seems inevitable that municipalities can produce welfare services themselves. The current trend is to form a subscriber—provider-model. We have been argued that alternative kinds of models are possible as well. No longer can all supplier relationships be treated as equal in value. The multiple service providers' network should have system suppliers and strategic partnerships, as well as standard producers. As mentioned earlier, the supplier relationship management should be seen as the municipalities' core and strategic activity. Therefore, in our case study, the Social Affairs and Health District should really think how they can find partners and build a sustainable relationship with them. Because clustering affects questions like how to guarantee the continuous learning and creating of know-how in the service cluster?

6 CONCLUSIONS

In this paper, we have defined the framework for a regional service cluster. A regional service cluster is a network of multiple actors operating in a regional service structure to make the production of services more efficient. It consists of various operative service providers, enterprises, as well as support institutions, like governmental agencies, research institutions, universities and technological units. It has both horizontal (municipalities strengthening their co-operation) and vertical (multiple service providers across different sectors strengthening their co-operation) dimensions. The definition has made through the case of setting up the Social Affairs and Health District

in Päijät-Häme, Finland, that is a pilot project in Finland aiming at integrating social welfare, primary health care and special health care.

We have suggested four elements in particular that are critical for the functionality of the regional service cluster. First, there must be a network leader that can be a single municipal, federation of municipalities or some other consortium. The role of the network leader is to take control of the network and manage its value-creating capabilities in a way that creates synergy between the key players. Second, the service production must be organised according to process management, where the role of the process owner responsible for the use of the resources is crucial. Third, it is important to note that the service providers from different sectors such as cluster actors are working as partners. They should be willing to learn, develop and invest in the relationship. Finally, customer orientation is the basis of the service cluster, meaning, for example building the processes around specified customer segments.

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