Chapter 13
Integrating Public and Private Services: Intermediaries as a Channel for Public Service Delivery

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ABSTRACT
The advent and widespread use of the Internet enables governments to connect directly to citizens and businesses. This results in a decrease of the transaction costs and a reduction of the administrative burden for governments, citizens and businesses. One consequence of this is the bypassing of existing parties that are interacting as intermediaries between the clients and provider. Based on intermediation theory, two case studies are analyzed which counter the argument of the bypassing of intermediaries. It is possible to adopt a re-intermediation strategy, in which intermediaries are used as a value-adding service delivery channel. The empirical evidence shows that private sector intermediaries can be employed for service innovation. The intermediaries provide service delivery channels that are closer to the natural interaction patterns of the users of public services than direct service delivery channels. Furthermore, the intermediaries can bundle public services with their own. For governments, this implies that only adopting a direct interaction strategy, which is often motivated by a desire to reduce transaction costs, is too narrow an approach from the point of view of demand-driven government. As such, direct interaction strategies need to be complimented by a re-intermediation strategy employing private sectors intermediaries in order to advance towards a truly demand-driven and client centered government.

INTRODUCTION
Governments are looking for ways to improve public service delivery and move towards mature service provisioning (Layne & Lee, 2001). They should offer integrated and executable services in a “one stop shop” (West, 2004; Wimmer, 2002). In the latter half of the 1990’s, there has been a rapid transformation in the government functions
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(Devadoss, Pan, & Huang, 2002). Governments are trying to improve their service provisioning and are looking to redesign their service delivery channels. Organizational website(s), telephone, mail and front-desk are the obvious service delivery channels employed by government organizations. The use of innovative service delivery structures has the potential to improve access to groups of citizens and business segments that cannot be reached via existing service delivery channels (Klievink & Janssen, 2008). The Internet has made it possible to connect to citizens and businesses directly without the need for front-desks or other expensive channels. Creating an online presence, including transaction and interaction features, is facilitated by many software packages. Yet, ICT enables other innovative service delivery structures that have gained little attention.

As a consequence of technology advances, it is easy to connect to clients directly. This may ease the process of interacting with the citizens and businesses, as no complicated agreements with and activities by middlemen are necessary. Disintermediation is the removal of intermediaries in the service delivery channels. The argument in favor of disintermediation is often based on transaction cost reduction (Malone, Yates, & Benjamin, 1987). Transaction costs are the result of friction in the interactions among parties (Coase, 1937). The reasoning is that ICT enables a shift towards more direct interaction by lowering transaction costs. The Internet involves lower transaction costs than third parties that need to make money to ensure their existence. The basic idea is that by disintermediation, direct interaction between the providing party and the service requester becomes possible at lower costs. Unnecessary activities are eliminated and removed.

Government organizations can, however, also use other – non-direct – service delivery channels to interact with their clients. Often these channels are operated by other parties and go beyond organizational boundaries (Janssen & Klievink, 2009). In this way, third parties act as intermediaries between government organizations and their customers. As a result, the disintermediation view is challenged because merely focusing on costs underestimates the range of facilitating services offered by intermediaries (Janssen & Sol, 2000; Sarkar, Butler, & Steinfield, 1995). New intermediaries may arrive that provide value-adding activities. Integrating these in innovative service delivery structures can be called re-intermediation. The discussion regarding disintermediation and re-intermediation strategies becomes more important in the light of demand-driven government, with both strategies having their merits (Klievink & Janssen, 2008). In this study, we contribute to the debate concerning the removal or use of intermediaries. The aim is to investigate the potential value of intermediaries in e-government service delivery. The results of this study should support government agencies in developing a better intermediation, disintermediation and re-intermediation strategy. We begin by reviewing theories regarding intermediation, disintermediation and re-intermediation. Next, we discuss our research approach and present two case studies. We will then compare the case studies, discuss our main findings and provide recommendations for future research. Finally, we present our conclusions in the last section.

LITERATURE BACKGROUND

Advances in ICT influence the interactions among parties and can lead to changes in whole network structures (Clemons & Row, 1992; Malone, et al., 1987). The costs involved in this kind of interactions are called transaction costs. The transaction cost theory has been used to predict that advances in the use of ICT would reduce transaction costs by enabling organizations to connect directly to each other (Gellman, 1996; Malone, et al., 1987). Transaction costs result from the transfer of property rights between parties and exist because of friction in economic systems (Coase, 1937; Williamson, 1975). Malone, Yates
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