The Role of Intermediaries in Multi-Channel Service Delivery Strategies

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ABSTRACT

The advent of e-government and the use of the Internet to connect governments to citizens and businesses have resulted into direct contact between government agencies and their customers. This development confirms the prediction of the transaction cost theory, which predicts a more direct interaction and the resulting bypassing of intermediaries. In this article, the authors explore intermediation theory and analyze two case studies which counter the argument of the bypassing of intermediaries. It is possible to adopt a reintermediation strategy in which intermediaries are used as a value-adding service delivery channel. The case studies show that intermediaries can be employed to reduce cost and improve information quality, while at the same time make government more demand-driven by employing channels that are closer to the natural interaction patterns of their customers than direct interaction. For governments, this implies that only adopting a disintermediation strategy, which is often motivated by a desire to reduce transaction costs, is too narrow an approach and needs to be complimented by a reintermediation strategy in order to advance towards a demand-driven government. [Article copies are available for purchase from InfoSci-on-Demand.com]

Keywords: E-Government; Intermediation; Multi-Channel Management; Public-Private Partnerships; Reintermediation; Service-Delivery; Transaction Costs

INTRODUCTION

It is widely acknowledged that advances in ICT result in fundamental changes in network structures (Clemons & Row, 1992; Malone, Yates, & Benjamin, 1987). In the latter half of the 1990’s, there has been a rapid transformation in the government functions (Devadoss, Pan, & Huang, 2002). Governments are trying to improve their service provisioning and are looking to redesign their service delivery channels. The use of innovative service channels has the potential to improve access to groups of citizens and business segments that cannot be reached via existing channels (Klievink & Janssen, 2008). Organizational website(s), telephone, mail and front-desk are the obvious service delivery channels employed by govern-
ment organizations. 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.

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 service delivery channels to interact with their clients. Often these channels are operated by other parties and go beyond organizational boundaries. In this way other organizations act as intermediaries between government organizations and their customers. As a result, the disintermediation view is challenged because merely focusing on costs understimates the range of facilitating services offered by intermediaries (Janssen & Sol, 2000; Sarkar, Butler, & Steinfield, 1995). New intermediaries may arrive that provide value-adding activities. This phenomenon can be called reintermediation. The discussion regarding disintermediation and reintermediation strategies becomes more important in the light of demand-driven government and both strategies may have 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 reintermediation strategy. We begin by reviewing theories regarding intermediation, disintermediation and reintermediation. Next, we discuss our research approach and present two case studies. We 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 lead to fundamental changes in network structures (Clemons & Row, 1992; Malone, Yates, & Benjamin, 1987). The costs involved in this kind of interaction 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, Yates, & Benjamin, 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 and Benjamin (1987) use transaction cost theory as the theoretical background for their Electronic Markets Hypothesis (EMH) and the bypassing of intermediaries resulting in disintermediation. The Electronic Markets Hypothesis suggested by Malone et al. (1987) argues that, by reducing the costs of coordination, information and communication technology (ICT) will support an overall shift towards a proportionally increased use of markets over hierarchies to coordinate economic activity. Malone, Yates & Benjamin argue that one of the effects of using electronic networks will be the bypassing of intermediaries in electronic markets due to lower transaction costs.
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