Carolina Camén

Using Contracts to Manage Services

A study of contracts in public transport
Using Contracts to Manage Services

A study of contracts in public transport
Carolina Camén. *Using contracts to manage services — A study of contracts in public transport*

Dissertation

Karlstad University Studies 2011:20
ISSN 1403-8099

© The author

Distribution:
Karlstad university
Faculty of Economic Sciences, Communication and IT
Business Administration
S-651 88 Karlstad
Sweden
+46 54 700 10 00

www.kau.se

Print: Universitetstryckeriet, Karlstad 2011
Abstract

Contracts play a key role in many business to business relationships. Service organisations are no exception. Despite a growing interest of services and how services are managed, research on how to use contracts to manage services has been surprisingly sparse in service research. The overall aim of this thesis is to contribute to a deeper understanding of using contracts to manage services in business-to-business relationships. Contract theories together with concepts from service research are used to enrich and understand how contracts are used to manage services and thus make contributions to service research. The thesis will give an empirically grounded understanding of managing services through contracts.

The thesis consists of six separate papers, all based on data gathered from contractual relationships between contractors and service providers. The results are based on studies of authentic contracts which are not the case in most previous studies. The methods used for gathering and analysing data involve case studies, content analysis of authentic contracts, interviews and document studies of the public transport sector in Sweden which is an empirically rich area for studying contracts.

The three main contributions of this dissertation are; firstly, an extended understanding of how contracts are used to manage the prerequisites for service quality for the parties involved. It was found that the concept service quality is brought forward on three interdependent managerial levels; from a detailed operational level, to a systemic oriented strategic level, and also a visionary rhetorical level each specifying the prerequisite for the services. To manage the prerequisites, the contracts rely on three identified means; laws and regulations, standards and measurements and economical incentives. Secondly, the detailed contents and rigidity of the contracts bring forward an inflexible and asymmetric relationship, where the parties are restricted in their activities. Here the contracts become a ‘substitute’ for trust and commitment instead of supporting the development of trust and commitment. Finally, the thesis deepen the understanding of the role of contracts in governing services, from being a static abbreviator to a dyadic market based relationship, to becoming a dynamic tool for developing and sustaining a value creating and value driven collaborative network.
Acknowledgements

These might be the most important pages of this thesis to write but also the most difficult ones. I know from experience that the acknowledgements are what people tend to read at the very least. I could begin by saying that this has been a journey (a metaphor that suits well due to the studied context), although I do not consider it a charter trip as much as an interrail trip or a mountain hike. And like at any journey, the companionship makes the difference. Once more in my life I came to humbly realise that it is not the work the keeps you motivated, it is the people around you that makes it interesting and worthwhile. Even though I have spent innumerable hours of work on my own I have never felt lonely thanks to the network of people, without whom my efforts would have been fruitless. I am deeply grateful for all those who made it possible for me to finish this thesis. My gratitude and sincere appreciation is hard to express in words.

First of all I want to thank my main supervisor, Professor Bo Edvardsson for his support, encouraging words, and input throughout the whole process. I am also thankful to Professor Bo Enquist, for his support, input, and for sharing his scientific experience and knowledge with me. Professor Tore Strandvik and Associate Professor, Inger Roos, thanks for sharing your scientific experience, knowledge, and for providing me with advice during my research process. Inger, thanks for all good talks, I really appreciate them. To the four of you thank you for providing me with new challenges and insights.

This research could not have been done without financial support. I would like to express my gratitude to the financers of my research; VINNOVA, CTF (Service Research Center) and SAMOT (Service and Market Oriented Transport research group). The dissertation would also not have been possible without the public transportation authorities that have provided me with contracts, internal and external documents, and those persons who generously gave both their time and shared their knowledge and experiences of the contracts, contracting processes, and public transport sector etc. with me.

I want to express my gratitude to my co-authors, Professor Bo Enquist, Professor Bo Rundh, PhD Patrik Gottfridsson and PhD Mikael Johnson. Thank you for everything that you have taught me and for sharing your knowledge with me.
I also owe many thanks to other colleagues that during times have provided me with helpful comments on drafts in different stages on the manuscript. Special thanks go to Martin Löfgren for comments on several of my papers and chapters in the thesis and to Markus Fellesson and Annika Åberg, for all your support during this process, especially in the end when you encouraged me to go on, and for making me believe that I could finish the thesis.

I would also like to thank my past and present colleagues at the department of Business Administration and department of Law and especially you at CTF and in SAMOT. All persons that together have created an incredible environment and network, that I am proud to be a part of. Thanks for all interesting discussions, good fun and support. I want to especially mention Jenny K., Jörg P., Ulrika J., Samuel S., Linda F. and Henrietta, H. for all support and cheering, Susanne S. for all support, especially with the technical issues with the manuscript, Katarina W. for making my figures understandable, Britt-Marie S. for all support with practical issues, Björn and Kajsa – what would I have done without all your kind support and encouragement? To all of you thanks for everything! To those I have not mentioned, be sure that I also heard and appreciated your cheers.

Lastly, I would like to take this opportunity to thank all people close to me. To all of you that always have encouraged me to go on, stopped by for coffee when you are in town, took me out for adventure and for making me not think of the thesis during period of times. Thanks! You know who you are! I want to especially mention Pernilla C and Lena W for always being there when I needed someone to talk to or go for a walk with. To all of you, your friendship means a lot to me!

To my parents for believing in me and for providing me with the confidence I needed to undertake such an adventure. Mother thanks for everything, the support and always being there. Father, thanks for all support and that you during periods of time literary have dragged me away from the computer to go to Arådalen, where I have had the opportunity to savour the nature, collect energy but also focus on the writing. Ulf, my brother, Åsa and Ester, thanks for always believing in me, all moments of fun and that I always feel welcome to visit you. I do promise you that I will come more often. Linnéa, the best sister one could have, thanks for all your cheering text messages, good talks and
always being there when I need you. I do promise you that I will come and visit you more often.

To put a full stop to and actually end this doctoral thesis is a strange feeling; while I have looked forward for this day to come, it will leave me with a huge sense of emptiness.

Karlstad March 2011

Carolina Camén
## Table of contents

**INTRODUCTION** .......................................................................................................................... 11

**CONTRACTING OUT OF SERVICES TO EXTERNAL ACTORS** ................................................................. 11

**THE ACTORS INVOLVED IN THE CONTRACTUAL RELATIONSHIP** ......................................................... 12

**CHALLENGES THAT ARISE WHEN USING CONTRACTS** ......................................................................... 13

**A SHORT SUMMARY OF THE APPENDED PAPERS** ............................................................................. 19

   Paper I – Service quality on three management levels – a study of service quality in public tendering contracts ................................................................................................................. 19

   Paper II – Contracting for service quality – managing the prerequisite for service ................................ 19

   Paper III – Contract partner relationships: how formal contracts influence business-to-business relationships .................................................................................................................................................. 20

   Paper IV – To trust or not to trust: formal contracts and the building of long-term relationships ............................................. 20

   Paper V – Contractual governance for sustainable service ................................................................................. 21

   Paper VI – Contractual governance for public service value networks ............................................................................ 22

**THE LINKS BETWEEN THE SIX APPENDED PAPERS** ......................................................................... 22

**AN OUTLINE OF THE THESIS** .............................................................................................................. 24

**THEORETICAL FRAMING AND POSITIONING** ...................................................................................... 25

   **MANAGING SERVICE** .......................................................................................................................... 25

   Managing service quality .......................................................................................................................... 27

   **CONTRACT RESEARCH** ........................................................................................................................ 29

   Previous research on contracts .................................................................................................................. 30

   Different roles and functions of contracts ............................................................................................... 31

   Different types of contracts ....................................................................................................................... 32

   **TO GOVERN SERVICES** ....................................................................................................................... 35

   Contractual governance ............................................................................................................................ 37

   Relational governance ............................................................................................................................... 38

   **FINAL COMMENTS ON THE THEORETICAL FRAMING AND POSITIONING** ........................................... 39

**EMPIRICAL CONTEXT AND METHOD** ................................................................................................. 41

   **THE EMPIRICAL CONTEXT – A BACKGROUND** .................................................................................... 41

   Public transport in Sweden ....................................................................................................................... 42

   **THE RESEARCH APPROACH** ................................................................................................................ 44

   **METHODS FOR COLLECTING DATA** .................................................................................................... 45

   Contracts .................................................................................................................................................. 45

   Interviews, informal discussions and meetings .......................................................................................... 49

   Documents ................................................................................................................................................. 51

   **RESEARCH METHODS IN THE APPENDED PAPERS** ....................................................................... 52

   Paper I ..................................................................................................................................................... 54

   Paper II ..................................................................................................................................................... 55

   Paper III .................................................................................................................................................... 56

   Paper IV .................................................................................................................................................... 57
Appended papers

Paper I

An earlier version of the paper was presented at the 12th QMOD/ICQSS and Toulon-Verona Conference, Verona, Italy in 2009 where it was awarded best PhD paper.

Paper II
Camén, C. Contracting for service quality- managing the prerequisite for service

Submitted to *Managing Service Quality*. An earlier version of the paper was presented at the 13th QMOD/ICQSS Conference in Cottbus, Germany 2010

Paper III
Camén, C. and Gottfridsson, P. Contract partner relationships - a study of managing relationships in public transport.

In review process, *European Management Journal*,

Paper IV

Paper V

Paper VI
CHAPTER 1

Introduction

This thesis focuses on how to use contracts in order to manage services in business-to-business relations. The research context for the thesis is the public transport sector in Sweden, a context where contracts play a central role when it comes to managing the services that are provided. Although the contracts are drawn up between two business partners, customers are indirectly involved; for example, by stipulating prerequisites for customer service quality. The contracts that were focused on in this study are contracts that are drawn up between two business partners, but indirectly involve the consumers who use the service. The thesis is positioned in the service research field and the contributions are made primarily to managing the prerequisites for service quality, business relationships and the use of contracts to govern services.

Contracting out of services to external actors

Contracts play a key role in managing business-to-business relationships. Service organisations are no exception. It is commonly known that the service sector is growing and companies are competing through service(s) rather than goods (Rust, 1998; Vargo and Lusch, 2004). Furthermore, many companies and organisations are no longer providing services or goods in-house. Instead, many companies and organisations let other companies provide their goods and/or services. Hence, the service is contracted out or outsourced to external actors. Moreover, since services are activities and interactions (Edvardsson et al. 2005) and co-created with customers (Vargo and Lusch, 2004; 2008), specific challenges arise when manage services. The aim of this thesis is to deepen the understanding of the use of contracts in this specific context.

The basic idea behind contracting out different services and the main advantages are to cut costs and to spur efficiency, innovations and quality by introducing mechanisms of competition. This makes the contracting out of services a strategic issue today. Even if contracting out is not a new phenomenon it has become a common strategy that is extensive and growing (see, for example, Hendry, 1995; Alexander and Young, 1996; Domberger 1998; Fill and Visser, 2000; Ya Ni and Bretschneider, 2007). This is a common trend.
in many, both private and public, companies and organisations today (Dean and Kiu, 2002).

Contracts are in many business relationships used to specify the duties and obligations of the parties that are involved (Macaulay, 1963a). The contract attempts to project itself into the future and to secure future transactions and outcomes, and thus reduce some of the uncertainty and risk (Malhotra and Murningham, 2002). Due to this, most business relationships traditionally include some form of formal contract (Roxenhall and Ghauri, 2004). Despite the existence of a formal contract, the role that the contract actually plays in a business relationship tends to vary along with the business context (Narula and Hagedoorn, 1999; Roxenhall and Ghauri, 2004). In some organisations and companies, the contracts are seldom or never used once they have been drawn up (Macaulay, 1963a) – the contracts exist to provide the evolving governance structure in which the relationships exist and develop; while in other organisations and companies the contract becomes the primary instrument by which the relations between the parties are managed and regulated, which is the case in inter-organisational public business relations.

The contracts can be described as a management tool that, by using a higher degree of formalised writing has the purpose of controlling the counterparty and guaranteeing a certain level of contribution within the exchange. These contracts are often written, in an impersonal in nature, and have a preventive purpose since the consequences of the failure to fulfil the applicable sanctions in the contract are clearly stated within them. The contracts are also characterised by having a clear start and end, and also by the content of the contract being measurable and quantifiable.

The actors involved in the contractual relationship

When services are contracted out to external providers, there are a number of actors that are involved in providing the services (see figure 1). Three main categories of actors are involved: (i) the contractors; (ii) the external service providers; and (iii) the customers (i.e. the user of the service that is contracted out). These three actors create three types of relationships. Firstly, there is the

---

1 In this framework I have chosen to use the terms contractor and service providers in order to have a coherent picture of the parties involved in the contractual relationship. I am aware that contractor
business relationship between the contractor (who is responsible for the contracted services) and the service provider. This business relationship is regulated by formal contracts. The contract does not just involve the obligations and duties between the contractor and the service providers; the contract also specifies the content of the services to be provided to the customer and the resulting value-in-use. This means that the contract does not just include a business-to-business relationship, but it also includes the relationship to the customers.

Secondly, there is the relationship between the service provider and the customer. This relationship is regulated more by the fact that the customers buying or put pressure on the design and delivery of the services. In my study the customers are indirectly included as stated above.

Thirdly, there is the relationship between the contractor and customer. The contractor is the one responsible for the service and, for example, as in public transport, where the route-bound traffic is provided by external service providers to customers. These relationships all constitute challenges when using contracts to manage services.

**Challenges that arise when using contracts**

One challenge that arises when using formal contracts as the dominant management mechanism is that they cannot address all the issues that are existing or developing during a long-term relationship, since formal contracts, especially explicit ones (Hart and Holmström, 1987), mainly focus on governing the short-term and foreseeable aspects of an exchange. From this point of view, the formal written contract has to be complemented with some sort of less formal management tools for handling the day-to-day interactions. Such tools are the creation of social bonds between the parties, the development of trust as a term might confuse some people as this can refer to someone providing or perform services. In the case of this thesis I have used the term for the party who is responsible for the service that is contracted out but not the one providing it. However, in the papers I have sometimes used different wording of the two terms used. The terms used in the papers can be seen as synonyms. Terms used for the contractors in the papers are public transport authorities. Service providers is in the paper are called fulfiller, sub-contractor, operator, and entrepreneur. When I use customer in this thesis I refer to the user of the service in my particular setting: the traveller using the public transport service when referring to the empirical context. This means that I have used customer to mean consumer.
and commitment between the parties, or the creation of a common value base between the organisations; i.e. some sort of cultural bond between the parties (Seshadri and Mishra, 2004; Brown et al. 2006). This means that instead of governing the relationship by using a formalised contract that specifies the details of the exchanges, one could govern a relationship by creating trust and commitment, and by trying to create mutual agreements between the interacting partners with regard to what the meaning of the relationship is. In those situations, the contract focuses more on creating a mutual agreement regarding what the meaning of the relationship is and what the parties will gain from the contractual agreement. The processes and structure of the relationship are more in focus than the fact that all the problems need to be solved before the contracts are signed. This kind of contract could be labelled a relational contract (Macneil, 1978a, 1978b, 1980); a contract type, which builds on a different logic where one recognises that it is not possible to foresee all future incidents and thus, it is not possible to regulate all aspects of the contract. The previous discussion implies that formal contracts, especially explicit contracts (Hart and Holmström, 1987), focus mainly on governing the short-term and foreseeable aspects of an exchange. In long-term exchange situations, there is likely to be a high degree of ambiguity and uncertainty; something that is difficult to handle in an efficient manner in a long-term explicit contract (Seshadri and Mishra, 2004).

From this point of view, the formal written contract is supplemented with some kind of relationship management whereby trust and commitment play key roles in handling day-to-day interactions between the parties (Seshadri and Mishra, 2004; Brown et al. 2006). However, in some business contexts such as, for example, the public tendering context, the contract plays a more crucial role in governing the relationship between the parties, and there is little or no room for initial trust and commitment. According to Laing and Lian (2005), this kind of situation is more common in cases of public tendering, where the purchasing party is the strong actor and dominates the tendering process, by setting forth the guidelines. Laing and Lian (2005) describe this as a form of elementary relationship, in which the contract is often used to manage the other party’s performance; most often by means of short-term performance targets that are determined by the purchaser. This usually results in a highly formal atmosphere containing bureaucratic routines (Laing and Lian, 2005). It has, in previous research, been emphasised that when using contracts to manage services, it is
important to also manage the parties’ behaviour and performance (see, for example, Brown and Potski, 2004).

The discussion above puts forward challenges on a general level. However, when it comes to managing services with contracts in the business-to-business setting there are specific challenges that are important to consider. The first challenge is regarding how to ensure service quality to the end-user of the services (i.e. how to manage different resources and activities). This is problematic since service provision is an interactive and dynamic process that takes place during the service provision (Grönroos, 1990). In other words, managing services can be a challenge due to the fact that: (i) the customers have different needs and requirements, and (ii) service provision can be influenced by individual differences and behaviours on the part of the service provider and the customer (Grönroos, 1990). Moreover this is particularly challenging due to restricted financial resources of the services and the fact that public services need to be provided within the limitations of these restrictions. Cost reduction may come at the expense of a lower quality service (Kamerman and Kahn 1989, Rust et al. 2002), since the service provider will not provide any more services than what they are being paid for.

The second challenge when contracting out services is connected to the business relations and the parties that are involved in the provision of the service. In order to manage services it is also necessary to manage the activities of the other organisations i.e. the business-to-business relationship. In a business relationship, the parties often experience uncertainty about the other party and how they will act in the future. One way to minimise, or at least to reduce some of this uncertainty and the risk between the parties, is to use a contract (Williamson, 1975; Roxenhall and Ghauri, 2004). Furthermore, terms and conditions of the contracts that are designed to manage services must be clear and specified from the beginning of business relations. This is a challenge for both parties, but especially for the contractor since what is stipulated in the contract brings legal dimensions to the business relationship (Cohen and McKendrick, 2005). In these contractual relationships the contracts are unilaterally dictated by the contractor, who must articulate the terms precisely from the beginning; including all interests, as there is no avenue under the governing legislation for subsequent substantial amendment of the contracts.
The third challenge concerns inter-relating the content of the contract to the governing structure. Governing includes “… elements of establishing and structuring exchange relationships as well as aspects of monitoring and enforcement” (Heide, 1994:72). Governance can thereby be seen as a multidimensional phenomenon. The challenge is to demonstrate an organisation’s intentions to fulfil its mission and vision, while simultaneously managing the organisation’s day-to-day operations.

The discussion puts forward a number of challenges when using contracts to manage services. The uncertainty is one challenge, that the contractor need to project into the future is another, the tight limited financial resources is a third and further challenge is that the customers have different needs and requirements. All these challenges put forward should be managed simultaneously. Given the challenges, a question that arises is how contracts are used to manage these three challenges in these areas.

Figure 1 illustrates the three actors who are involved as well as the three relations described above. Figure 1 also summarises the challenges that are identified when using contracts to manage services in the relationship between the contractor and service provider, as well as the challenges that have been put forward between the service providers and customers. My focus is on the contractual relationship between the contractor and the service providers. However, in this thesis I do not focus on the relationship between the contractor and the customer per se, therefore, the arrows are pointed in both directions. However, the customers are indirectly involved as the contracts contend information about, for example, a complaint system. To understand how to use contracts to manage services it is important to understand how these challenges are dealt with simultaneously.
Previous service research lacks empirical studies that focus on contracts and how to manage services through those that are based on an understanding of the nature of service(s) (Fisk et al. 1993; Brown et al. 1994; Furrer and Sollberger, 2007). Lacoste (2008) recognised the importance of investigating contracts that stipulate services and not purely on goods. Therefore, it can be argued that how to use contracts to manage services requires further investigation; especially in a service setting. Contracts within service research have been more implicitly been studied in the form of an implicit contract between the customer (the end user of the service) and the provider of the service. This is mostly discussed from a consumer's perspective in the form of quality determinants, but also in form of satisfaction and the related concepts (Brady and Cronin, 2001; Schneider and White, 2004). Issues that have been put forward in previous service research are performance-based contracts (see, for example, Kim et al. 2007; Ng et al. 2009; Ng and Nadarupati, 2010; Hypko et al. 2010a; Hypko et al. 2010b), and service contracts (see, for example, Bolton, et al. 2008), but, not to a large extent on how formal contracts are used to manage services.

Marketing scholars, as well as practitioners, have long been interested in the nature of a business-to-business relationship (see, for example, Dwyer et al. 1987); and the exchange between business firms has received a lot of attention in previous research (see, for example, Heide, 1994), as it is a central issue for marketing (Mooi and Ghosh, 2010). These businesses include contracts as an
agreement for this exchange (Mooi and Ghosh, 2010) that include not only the obligations and duties but also the service provided and the business relations. Recently scholars have suggested that it is important to investigate the nature and form of contracts in these business relations (see, for example, Furlotti, 2007; Mouzas and Blois, 2008) in order to understand how the contracts are used to manage business relations. Lusch and Brown (1996) have argued that even though there is some research that has been conducted on contracts, there is still a lot to learn about “when different contracts should be used to govern relations” (p. 19). To date, research concerning contracts has mainly been conducted in private companies and not to a large extent in public service businesses (Lacoste, 2008). The role of contracts in public services and how public service providers design and use contracts has received very little attention within service research even though there are some exceptions (see, for example, Brown et al. 2006).

An empirically rich context for studying contracting is offered by the public transport sector where the practice of contracting out services has become increasingly common (Koll framåt, 2008). It is also a context where the contracts are in focus in order to manage these services due to limited financial resources.

Aim

The aim of this thesis is to contribute to a deeper understanding of using contracts to manage services in business-to-business relationships. As such the thesis will extend the existing research on contracts within service research. Against the backdrop of the discussion above the aim is to address the following three research questions:

- How are contracts used in managing services? (mainly paper I and II)
- How does the use of contracts affect business-to-business service relationships? (paper III and IV)
- What is the role of the contracts in governance structures? (mainly paper V and VI)
A short summary of the appended papers

This section contains a short summary of the six appended papers in order to facilitate the understanding of how these papers are related to each other and also to facilitate the understanding of the theoretical and methodological chapter, and the choices that have been made in later chapters. The research design in the various papers will be discussed in chapter 3 and the results and contributions of the six appended papers will be discussed in chapter 4.

Paper I – Service quality on three management levels – a study of service quality in public tendering contracts

The aim of this paper was to deepen the understanding of how service quality factors are stipulated in advance within contracts, in order to ensure the providing of a service quality to the user, when the service is contracted out to an external partner. Further the aim was to identify, describe, and analyse the service quality descriptions included in contracts. Since the literature is sparse and empirical evidence of service quality in contracts is limited and in need of further development, it was decided to use an exploratory design aimed at developing a better understanding of the service quality design of contracts. Sweden’s public transport sector was chosen as the empirical context, with contracts between the contractors and their service providers being used as the empirical base of this study. All contractors in Sweden were invited to participate by means of providing me with contracts from their operations. The research sample comprised 21 contracts between contractors and service providers meaning that I had at least one contract from each contractor.

Carolina Camén is the single author of this paper. The paper has been published in the International Journal of Quality and Service Sciences, (2010), Vol. 2 Issue 3, pp. 317-334. An earlier version of the paper was presented at the 12th QMOD/ICQSS Conference (Quality Management and Organisational Development /International Conference on Quality and Service Sciences), Verona, Italy in 2009 where it was awarded best PhD paper.

Paper II – Contracting for service quality – managing the prerequisite for service

This study was designed to investigate how contracts are used to manage prerequisites for services and thereby service quality in business-to-business
relations where contractors aim to control the service by contractual means. This is important because the contractors are responsible for and must guarantee a certain level of quality to the final user of the service (i.e. the customer; in this case the travellers). The research comprised 21 contracts between contractors and service providers.

Carolina Camén is the single author of this paper that was presented at 13th QMOD/ICQSS Conference (Quality Management and Organisational Development /International Conference on Quality and Service Sciences), Cottbus, Germany in 2010. Paper has been submitted to Managing Service Quality

**Paper III – Contract partner relationships: how formal contracts influence business-to-business relationships**

This paper proposes a new form of relationship that occurs in the previously mentioned kind of business setting. The relationship is labelled CPR – contract partner relationship. The study is based on an in-depth case study of a contractual dyad within the public transport sector in Sweden. The empirical data is based on the use of formal contracts and interviews with managers at both sides of the contractual dyad.

This paper was co-authored with PhD Patrik Gottfridsson. The writing of the paper was a joint effort. The author of this thesis contributed with writings in the introduction as well as the literature section; especially that concerning management of relations with contracts. Moreover, the author of this thesis took on the largest part of the writing in the method and findings. The interviews were carried out by all authors but the author of this thesis had the main responsibility for performing the interviews and analysing the interviews and contracts. The discussion section in the paper was a joint effort.

The paper is in review process for the European Management Journal.

**Paper IV – To trust or not to trust: formal contracts and the building of long-term relationships**

The aim of the fourth paper was to explore how contracts are used to build and develop long-term relationships in a context where trust cannot be expected in advance – i.e. there is a lack of initial trust. The main research question in this
study was: How are contracts used in an elementary relationship setting, where initial trust between the parties does not exist, to build long-term relationships? The research question was divided into two sub-questions (i) How can contracts contribute towards relationship building? And (ii) What role(s) does the contract have in the public sector dyad?

This paper was co-authored with PhD Patrik Gottfridsson and Professor Bo Rundh. The writing was a joint effort and the authors have together developed and discussed the content of the paper. The author to this thesis contributed with writings in the introduction and the part that especially concerns the roles of contracts. The empirical data and the analysis of the empirical material were conducted by the author of this thesis. Moreover, the author of this thesis took the largest part in writing the method and findings. The discussion section in the paper was a joint effort.

The paper has been published in *Management Decision*, (2011) Vol. 49 Issue 3, pp. 365-383. An earlier version of the paper was presented at the 25th IMP - conference (Industrial Marketing and Purchasing Group) in Marseille, France in 2009.

**Paper V – Contractual governance for sustainable service**

In this paper we argue for a shift from a more controlled perspective to a more values-based management perspective. Focus is on contractual governance as a part of performance management for a stakeholder network in a specific, government-controlled context – public transport. The aim of the paper is to argue for contractual governance as the creator of a more dynamic and sustainable contractual relationship, by way of expanding the concept of performance management, in order to become more proactive in the governing process that concerns the inter-organisational relationship of a stakeholder network.

This paper was co-authored with PhD Mikael Johnson and Professor Bo Enquist. Professor Enquist is considered the first author of the paper but the authors have developed and discussed it together and thus have equally contributed to the idea of generation process. Furthermore, the authors have collected the empirical data together.
The paper has been published in *QRAM – Qualitative Research in Accounting and Management*, (2005) Vol. 2 No 1, pp. 29-53. The paper was presented at the Sixth International Management Control Systems Research Conference – Management Control, Edinburgh, Scotland in 2004.

**Paper VI – Contractual governance for public service value networks**

The sixth paper was designed to explore the links between contractual governance and performance measurement in a value network for public service, in the context of public transport, by positing service dominant logic, S-D logic, as an alternative paradigm to the conventional goods dominant logic, G-D logic. The paper addresses two research questions, which are: (i) How does S-D logic influence contractual governance and performance measurement? and (ii) How do these influences of S-D logic on contractual governance and performance measurement affect governance of public service in a value network?

This paper was co-authored with PhD Mikael Johnson and Professor Bo Enquist. Professor Enquist is considered the first author of the paper but the authors have developed the idea of the paper and discussed the different barriers and gaps in order to bring the contents of the paper together and to equally contribute. The empirical data was collected by the authors together. The author to this thesis contributed to the writings in the introduction, the literature sections especially that concerning contracts, and the empirical and findings section. The discussion and the model were developed together.

Paper has been accepted for publications in *Journal of Service Management*, (2011) Vol. 22 Issue 2.

**The links between the six appended papers**

This section describes how the six papers are linked to one another. The focus in this section is to discuss how the papers together contribute to the knowledge gap and the fulfilment of the overall aim.

As indicated earlier in this introduction, managing services with contracts is a multi-focal process as there is more than just the prerequisite for the services
that needs to be managed. Contracts also affect the business-to-business relationships as well as the governance structure. Since the same contracts regulate the service, the service quality and the business-to-business relationship has an effect on how the contracts are used as a governance mechanism. In this respect the six papers focus on service quality managing prerequisites for services, business relationships and the contractual governance. Figure 2 illustrates how the appended papers are linked to each other. Furthermore, the figure illustrates that papers I and II focus on the content of the contracts – specifically on prerequisites for services and service quality and how to manage these. Papers III and IV focus on the contractual relationship and how contracts affect long-term business-to-business relationships. Finally, the figure illustrates that papers V and VI include and focus on the governance structure. The numbering of the papers does not reflect the publication dates or priority, but how the papers are linked to respective fields of interest.

Specifically papers I, II and also VI contribute to an extended understanding of how contracts are used to manage prerequisites for services in order to create service quality for the parties involved. Papers III and IV focus on how the contracts are used in a long-term service business-to-business relationship. These papers and papers II and V contribute an extended understanding of the influence of contracts in business-to-business relations. Foremost, papers V and VI – but also papers I, II, III and IV – contribute to an extended understanding of contracts role as a governance mechanism in services.

![Figure 2: How the papers are linked to each other.](image-url)
An outline of the thesis

Finally, the structure of the thesis will be accounted for, but before this I will go into further discussion on the theoretical framing and positioning. The thesis is divided into five chapters. The first chapter, the introduction, focuses on the motivations for the research and the existing research gap in literature. The chapter also includes an outline of how the six appended papers are linked to each other and ends with the structure of the thesis. The second chapter, provides the theoretical framing and positioning for this empirically driven thesis. Contract theories together with concepts from service research are used to enrich and also understand how contracts are used to manage services. The third chapter presents the empirical context and method of the thesis and outlines the empirical research process in general, and the specific methods used in various papers. The fourth chapter presents a summary and results as well as the contributions of the six papers. The fifth chapter discusses the contributions of the thesis. Furthermore, directions for further research are presented and argued. The appendices contain the six appended papers that form the basis for the research that is presented in this thesis.
CHAPTER 2

Theoretical framing and positioning

This chapter contains the theoretical framing and positioning of this empirically driven thesis. The chapter also defines the key concepts that are used in the thesis. These are managing services; and contracts and governing services in business-to-business relationships.

Managing service

In a company, different activities, resources and actors, etc. need to be managed. One way to do this is with a contract. This is irrespective of whether the service is contracted out or provided through a constellation or network of companies. On an overall level, managing is defined here as getting things done in line with the business mission, strategy and objectives (Grönroos, 2000). When ‘managing services’ is referred to in this thesis, it denotes how the contracts are used to in order to manage the prerequisite for the services; including service quality and business relationships. It also refers to how the contracts are related to the entire network where the exchange takes place within the governance structure.

One of the basic assumptions in service management is that services are to create value for the customers. Much previous service research has discussed the characteristics of service (see, for example, Shostack, 1977; Grönroos, 1978). Hence, the concept of service is well researched in previous literature and has been defined by several scholars during the last decades (see for example; Lovelock, 1983; Grönroos, 1984; Parasuraman et al. 1985; Edvardsson et al. 2005). It is a concept that has changed from characterising the service by relating it to goods with a focus on the IHIP (inseparability, heterogeneity, intangibility, and perishability) factors (Parasuraman et al. 1985; 1988), to a perspective that nowadays is referred to as service logic (Grönroos, 2006;2008); or most often as service dominant logic (Vargo and Lusch, 2004). The change implies that the focus is on the conceptualising of value, the service process and enabling the service systems of operand and operant resources (Vargo and Lusch, 2004; Edvardsson, 1997).
In previous research there are somewhat different definitions of the concept of service. Grönroos (1990) defines service as “… an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interaction between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems” (p. 27). Service can also be defined as activities and interactions provided as solutions to the customers wishes and needs (Edvardsson et al. 2005). Viewing service in this way implies that the activities, processes and deeds can be seen as resources that in technical terms can be divided into operand (physical, technical and informational resources) and operant (personal knowledge and skills of customers, employees, and other human actors) resources (Vargo and Lusch, 2004). Vargo and Lusch (2004) define service as “… the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself” (p. 2). This definition of service implies that service is something that is a solution to the customer’s problems or it fulfills important needs. However, it has also been claimed in previous research that service is better understood as a perspective rather than an activity (Edvardsson et al. 2005). To understand service in this latter way indicates that service is something that a company can have and not just in terms of providing something to a customer. Instead it is about how companies and organisations adjust their thinking and adopt a service perspective that focuses on the creation of value for its customers (Grönroos, 2008).

In short, it has been claimed in previous research that a company does not provide services; instead it provides the prerequisite for the service (Edvardsson Olsson, 1996; Edvardsson 1997). This is because the service is co-created with customers and the customer process and is referring to activities carried out by the customer and interactions involving the customer (Edvardsson and Olsson, 1996). What a company or organisation can offer has to do with the prerequisite for the services, which is often described and defined by the service concept; the intended service process and the resources in the service system, all which are needed for the services to come about (Edvardsson and Olsson, 1996; Edvardsson 1997). In this thesis the content of the contract is in essence described by the specification of the prerequisites of the services and the framework suggested in Edvardsson (1997) is used. First and foremost, I do not view contracting from a service-dominant logic perspective (Vargo and Lusch 2004; 2008). I used this perspective in the end of the thesis to reflect upon some of the results and contributions. Mostly I have used services in the
context of public transport, in order to investigate what the contracts are used for in the management of these services.

Managing service quality

After the brief discussion of services I now turn to the managing of service quality. Today, many companies and organisations face challenges when providing attractive services within the constraints of limited financial resources. Improving the quality of the provided services can attract more users of the services and this means that users might come back, which in turn can have an effect on the profitability (Rust et al. 2002). Service quality is an issue that has received much attention in previous research (see, for example, Crosby, 1979; Grönroos, 1984; Parasuraman et al. 1985; Garvin, 1988; Juran, 1988; Parasuraman et al. 1988; Zeithaml et al. 1990; Cronin and Taylor, 1992; Reeves and Bednar, 1994; Grönroos, 2000; Brady and Cronin, 2001; Schneider and White, 2004; Johnston and Clark, 2005, Perez et al. 2007). Previous research on service quality can be divided into five research streams: (i) concept and nature; (ii) measurement; (iii) how to improve service quality; (iv) strategic implications; and (v) effects on consumer behaviour (Perez et al. 2007).

A common denominator in previous studies of service quality is a consumer focus (see, for example, Schneider and White, 2004) and analytical models for managing services and relationships are common (Rust et al. 2002). These models have mainly been developed and based on empirical studies that use information from the customer and in particular, customer perceptions. This implies that many organisations and companies gather feedback from consumers in the form of data on perceived quality and customer satisfaction. Therefore, many studies have been devoted to the development of reliable and replicable instruments and models for measuring service quality (see, for example, Zeithaml et al. 1990; Cronin and Taylor, 1992; Ladhari, 2008, 2009). SERVQUAL (Parasuraman et al. 1985, 1988) is one of the most commonly used, applied and valued measures (Ladhari, 2009). However, a number of scholars have identified difficulties in using the SERVQUAL instrument (see, for example, Cronin and Taylor, 1992), and consequently researchers have developed alternative service quality measurement models many based on the SERVQUAL model (Ladhari, 2009). In this way the instrument has been applied and modified in order to fit a particular business. Perez et al. (2007) attempted to construct a measurement scale for service quality in the public
transport sector, using the SERVPERF scale to create QUALBUS which is suitable for assessing local bus services. When studying service quality, different contexts have been used. One context is the public transport context. Focus in the research is on studying dimensions, factors and attributes that are connected with the customer's perceived quality (Milan, 1996; Prioni and Hensher, 2000; Ben-Akiva and Morikawa, 2002; Hensher and Prioni, 2002; Hensher, 2003; Hensher et al. 2003; Davidsson and Knowles, 2006; Paulley et al. 2006). The research has focused more on particular issues that are connected with the actual service and the perceived value that the consumer can expect or on important quality issues and their determinants (see, for example, Friman et al. 1998; Fellesson and Friman, 2008), rather than on how service quality is managed. Some generic dimensions and attributes were identified in previous service-quality studies: punctuality, total bus kilometres, frequency, service intervals, schedule delays, waiting environment, comfort, cleanliness, technical issues concerning the vehicle, arrival time, and information (Prioni and Hensher, 2000; Ben-Akiva and Morikawa, 2002; Davidsson and Knowles, 2006; Paulley et al. 2006; Hensher, 2007; Fellesson and Friman, 2008). However somehow this service quality is formulated in contracts as well as how service quality is managed though contracts. Hensher et al. (2003) attempted to create a service-quality index in order to measure the fulfilment of commercial bus contracts, but they also discussed performance-based quality contracts in bus service provision (Hensher and Stanley, 2003; Hensher and Houghton, 2004).

The overall conclusions of previous studies that focus on service quality issues related to the public transport sector are presented here. Most previous research focuses on service quality factors and attributes, and how the customer experiences this service quality. It is apparent that the studies that are concerned with service quality in the public transport sector largely focus on the dimensions, factors and attributes connected with the customer's perceptions of quality. Most prior research takes a user perspective in order to investigate how users of public transport experience service quality. However, a smaller number of studies have focused on how service quality is stipulated in advance in order to provide a service of high quality, and specifically on how this service quality is formulated within contracts and managed through contracts.
Contract research

A basic assumption of business contracts is that they are used for handling different aspects of business relations, which includes both of the more traditional issues concerning contracts. That is, different obligations and duties in a relationship, as well as the content of the service; the service specifications, what is agreed upon and what is to be delivered to the customers. Contracts, from a legal perspective are mostly studied from a rather normative perspective as the processes are mostly to do with the drawing up of contracts, the clauses in the contracts but also the questions of why contracts exist and are used. Studying the contract in this way can be referred to as the legal definition of the contract. A common definition in the legal perspective is *an agreement between at least two parties, in which the offering is made and accepted*. Atiyah (1989) identifies a contract as an agreement, which is legally enforceable or legally recognised as creating a duty. This definition can be related to how the term is used to describe an empirical phenomenon.

However, the definition foremost states different obligations and how to make the contracts legally enforceable. This definition, on the other hand, does not include all parts of the business relation. Macaulay (1963a) defines contracts as “… devices for conduction exchanges” (Macaulay 1963a:56), which includes “rational planning of the transaction with careful provision for as many future contingencies as can be foreseen and the existence or use of actual or potential legal sanctions to induce performance of the exchange or to compensate for non-performance” (Macaulay 1963a:56). A basic assumption in this perspective is that contracts are used as a control mechanism for individuals within their own organisation, in the other party’s organisation and individuals in a potentially competing organisation. This allows the contract, in this perspective, to also have a preventive purpose and should, as in the previous perspective, reduce uncertainty and risk and also prevent any opportunistic behaviour (Williamson, 1975). The contracts have a binding effect and a consequence of this is that the contract also specifies the contents of the transaction, in order to stabilise future procedures. Contracts attempt to project into the future to secure future transactions or to reduce uncertainty and risk (Malhotra and Murnighan, 2002). Therefore, contracts can be used to accomplish and control future transactions and to establish a reasonable planning of future transactions with external parties. Despite this, there is a common view that legal proceedings should be able to go through or to receive compensation if the parties do not fulfil the transactions that are agreed upon (Macaulay, 1963a,
The advantages of using contracts outweigh the disadvantages, but it is still important to plan the exchange – especially when legal sanctions lead to more positive than negative effects in the exchange (Macaulay, 1963a).

**Previous research on contracts**

Literature concerning contracts is still diverse and there is no single comprehensive theory of contracts and contracting (Nystén-Haarala et al., 2010). Instead the theories tend to vary and much of the previous research tends to study various aspects of contracting. In previous contractual research, six different areas can be identified. The first area has focused on a juridical perspective; how contracts become legally enforceable and what the different clauses mean (see, for example, Atiyah, 1989; Grönfors, 1995). Secondly, research on what aspects of contracts exist (Macneil, 1978a, 1978b). Thirdly, the use of contracts (Macaulay, 1963a, 1963b; Roxenhall, 1999; Roxenhall and Ghauri, 2004), and categorisation of contracts (see, for example, Williamson, 1975; 1978a, 1978b; Sjöstrand 1985; Hart and Holmström, 1987; Greve, 2000). The fourth issue is that research has also dealt with the problems that contracts often handle like trust; or to be more correct the lack of trust between parties. This has to do with the fact that contracts claim to reduce uncertainty and risks and thus are used for preventive purposes (Malhotra and Murninghan, 2002). The fifth research issue concerns contracts within a transaction cost perspective (see, for example, Williamson, 1985; 1991) and contracts from the agency-principal theoretical point of view (see, for example, Jensen and Meckling, 1976; Hart and Holmström, 1987; Milgrom and Roberts, 1992). Transaction cost theories are used to explain the costs that are associated with contracting (see, for example, Williamson, 1985; Hart and Holmström, 1987). The final area identified is contracts within an outsourcing perspective. In this perspective the focus is on the outsourcing processes and thus the contracts have a peripheral focus in this context of research. Common issues in this perspective are as follows: (i) the pros and cons of outsourcing (see, for example, Alexander and Young, 1996; Quinn and Hilmers, 1994; Hendry, 1995; Kakabadse and Kakabadse, 2000; Bailey et al., 2002); (ii) what to contract out both in private companies (Hendry, 1995) and in public ones (including governmental agencies) (Ya and Bretschneider, 2007) and (iii) factors that affects the decisions in relation to contracting out. (see, for example, Kakabadse and Kakabadse, 2000).
In this thesis a contract is defined as a formal detailed legally binding agreement that specifies the obligations and roles between two or more business partners. Authentic contracts are used in this thesis as the empirical basis for the analysis. Secondly, contracts are used in a theoretical sense including concepts, theories and scholarly studies on managing through contracts. This provides the basis for contributions to service management research. Contracting is used as a term that includes both the process and the performance and accomplishment of the contractual relations between the parties involved in the business relations.

**Different roles and functions of contracts**

In most business transactions, there is some form of contract between the parties that regulates each actor’s contribution to the business relationship (Roxenhall and Ghauri, 2004), and specifies obligations and duties among the parties. In this sense, contracts are legally enforceable agreements. The literature on contracts is drawn from well-known scholars such as Coase (1937), Macaulay (1963a, 1963b, 1972), and Macneil (1974, 1978a, 1978b 1981).

Previous research on contracts states that in general, formal contracts have a number of principal functions that include the following: (i) to bind the parties together; (ii) to specify the content of the transaction; and (iii) to provide evidence of the nature of the agreement and its enforcement (Blomqvist, et al. 2005). Further, the contract helps by (iv) acting as a communication tool for the transmission of information from one party to the other; (v) reducing uncertainty and risk by stating each party’s contribution to the relationship; and/or (vi) meeting the requirements of accepted practice in a given business setting; and finally (vii) stabilising future proceedings with external actors (Williamson, 1975; Roxenhall, 1999; Malhotra and Murnighan, 2002; Roxenhall and Ghauri, 2004).

Despite the existence of a formal contract, the role that the contract actually plays in a business relationship tends to vary depending on the business context (Narula and Hagedoorn, 1999; Roxenhall and Ghauri, 2004). In some cases, contracts are seldom or never used once the contract is drawn up and signed the contract exists merely as a document needed for the negotiation and creation of the business while it is being initiated (Macaulay, 1963a; Poppo and Zenger, 2002). The contracts are only used if disputes arise between the business parties or when a disagreement occurs (Macaulay, 1963a). The purpose
The practice of using contracts may range from acting as proof of what has been agreed upon, to control individuals, or as an interpreting tool that clarifies aspects of the contract that are not obvious (Roxenhall, 1999). A contract is also influenced by the tradition, norms and values in the specific social and organisational context that the contracts act within (Macaulay, 1963a, 1963b). For example, there might be a difference if contracts are used in a service business or in a manufacturing business.

**Different types of contracts**

As a consequence of the different roles and functions of contracts, there are a variety of contractual arrangements, which in turn will have an impact on the governance structure and the form of management. Turning to the different types of contracts, a contrast can be made between complete contracts (which specify all conceivable scenarios) and incomplete contracts (in which it is recognised that not all factors capable of affecting a contract are foreseeable at the time of finalising it) (Hart and Holmström, 1987). The latter type allows scope for interpretation, discussion and possibly disagreement, and although such a contract might be less secure, it is simultaneously more open and flexible (Hart and Holmström, 1987).

Complete and incomplete contracts (Hart and Holmström, 1987) can be compared to what Macneil (1978a 1978b) classifies as transactional and relational contracts. Transactional contracts are similar to formal legal contracts, which are characterised by formal rules, quantifiable contents, and a defined term for the contractual arrangement (Sjöstrand, 1985; Lindvall, 2001). Transactional contracts may be compared to the complete contract (Williamson, 1975; Hart and Holmström, 1987). Typically, transactional contracts are of short duration and focus little on personal activities; rather, they tend to focus on issues that can be easily measured – preferably in monetary terms (Macneil, 1978a). Relational contracts are more difficult to describe and specify; although they do have a specific term and the exchange variables specified in them can be either measurable or un-measurable (Macneil, 1978a, 1978b, 2000). In these types of contracts, there is less focus on legalities and more on reaching a mutual understanding concerning the meaning of the relationship and the benefits to be gained from the contractual agreement in question. In such relational contracts, the structures and processes of
relationships take precedence over attempts to foresee and resolve all problems that might arise in the contractual setting (Macneil, 1978a, 1978b).

Greve (2000) has described types of contracts in two opposite ways – hard and soft contracting. The hard contract can be referred to as what most people think of when contracting is discussed and can also be compared with the formally written contract. This type of contract specifies the duties and obligations between two or more parties concerning an exchange of goods or services. This is similar to the classical or neoclassical contracts defined by Macneil (1978a) and the transactional contracts defined by (Williamson, 1975). These contracts are often written, impersonal and have preventive purposes or sanctions connected to the contract. Parties involved in this type of contract are often expected to act in a utilitarian and self-regarding way (Greve, 2000).

Soft contracting, on the other hand, focuses more on cooperation. This means that opportunistic behaviour is not that common and that when entering a contract it is more in the form of freedom to agree to a contract. No-one is forced to enter a contract (Greve, 2000). Other important factors are mutual consent. Some of the theoretical foundations of the soft contracts have their basis in the sociological, game-theoretical and transactions cost theories (Greve, 2000). Whereas hard contracting is concerned with maximising the utility for the single part, the soft contracting maximises the utility for both parties, which is a mutual understanding. Thus, the transaction’s cost, the writing, negotiation and controlling of the contract, as well as the production costs must be considered (Williamson, 1985). The soft contracting can be compared with the relational contracting suggested by Macneil (1978a, 1978b).

Another type of more flexible, relationally focused contract is the type that Mouzas and Ford have discussed in various articles, labelled umbrella agreements or framework contracts (Mouzas and Ford, 2006, 2007; Mouzas, 2006). An “… umbrella agreement is a joint consent which explicitly sets out a framework of principles with the aim of providing flexible guidance for future contractual decisions.” (Mouzas and Ford, 2006:1249). The umbrella agreement can be seen as a framework of clauses that regulate further contracts (Mouzas and Furmston, 2008). This means that this form of agreement does not regulate all particular aspects of the relationship. Instead it provides a framework where it specifies the former exchange of the business relationship. It is, however, not expected that the contractor needs to buy from this particular buyer; instead there is a
possibility to do it. However, “umbrella agreements reduce the costs, in terms of time and effort to select, manage and oversee single transactions” (Mouzas and Furmston, 2008:38). This is an effective way of creating a method for collaboration. A similar term is ‘framework contract’, which an ‘umbrella contract’ is an example of. The framework contracts used in business-to-business relationships typically reflect the willingness and desire to co-operate during a certain period of time, and these strategies are most often defined by contractual agreements (Lacoste, 2008). The contract’s framework defines the relationship and the consequences if the relationship declines. Therefore, these types of contracts can be defined as a relationship management tool (Mouzas and Ford, 2006).

Previous research has also focused on business contracts that are used as a generic term when doing business such as pre-contractual agreement – this form of contracting often obliges parties to enter into further contractual relationships in the future. A common form of the pre-contractual agreements is for example, a letter of intent but also an agreement in principal and a commitment letter. Service level agreements are other types of contracts which often are a part of a service contract, in which the level of service is specified (Bolton, et al. 2008).

In service research another form of contract that has been put forward lately is a performance-based contract or an outcome-based contract (Kim et al. 2007; Ng et al. 2009; Ng and Nudurupati, 2010; Hypko et al. 2010a; Hypko et al. 2010b). Performance-based contracts are according to Kim et al. (2007) “reshaping service support supply chains in capital-intensive industries” (p 1843). Further “...replace traditionally used fixed-prince and cost-plus contracts to improve product availability and reduce the cost of ownership by tying a supplier’s compensation to the output value of a product generated by the customer” (Kim et al. 2007:1843). The focus is thereby on performance goals or outcomes. Most of the previous research on performance-based contracting is carried out in manufacturing companies that are implementing these types of contracts when the focus has changed, along with the perspective, into a service focus. It has been discussed in previous research that performance-based contracts can be seen as a service strategy (Hypko et al. 2010b). Performance-based contracting has also been discussed and argued for by Hensher and Standley, (2003) in the bus service provision.
In summary, as a consequence of the different roles and functions of contracts, according to previous research, there are many different categories of contracts and they can be positioned along a continuum where there is one type, for example, transactional contracts, on one end of the line and more or less the opposite type, for example, relational contracts, on the other end of the line. In this continuum, transactional and relational contracts can be referred to as complete and incomplete contracts, but also hard and soft contracts. There are similarities among the different word couples as described above. Depending on what types of contracts are chosen there seem to be different effects on the parties involved in the contract, the writing and the costs to take an example. The point is that different aspects of contracts should be noted. The continuum of contracts can be related to both a practical and a theoretical level. To use incomplete, soft or relational contracting is more to preserve flexibility in the relationship in order to adapt to changes in the environment (Macneil, 1978a). Instead of writing complete contracts that are comprehensive and that specify all possible scenarios, a more flexible contract can be of use where the contract stipulates more of the common goals that the parties have and are formulated in an open manner so that the parties can adapt if there are any changes in the business.

To govern services

Governance appears prominently in several different streams of literature including economics (see, for example, Williamson, 1975), marketing (see, for example, Wathne and Heide, 2004), accounting (see, for example, Kaplan and Norton, 1996, 2004) and organisation theory (see, for example, Ouchi, 1977; 1979; 1980). Previous research on governance has focused and conceptualised the dichotomy of market or hierarchy (usually called transactions cost theory), which has been the dominant influence of how to study governance forms and structures (Williamson, 1975). During the last two decades various hybrid or intermediate forms of governance have been discussed and compared in a number of studies and from different perspectives (Williamson, 1975, 1985, 1991; Ouchi, 1979; Heide 1994; Rindfleish and Heide, 1997; Håkansson and Lind, 2004). However, it is important to note that less attention has been paid to how different governance forms are combined and their interrelatedness (Cannon et al. 2000; Håkansson and Lind, 2004), and how the different forms are used in a business-to-business exchanges that govern services. (Vandaele et
al. 2007). Instead, the empirical focus has been on manufacturing businesses; mainly using surveys (Rindfleisch and Heide, 1997).

Governance is a term that in previous research has been defined in several ways. Williamson and Ouchi (1981) have used the term of governance as mode of transactions while, for example, Palay (1984) defines governance as a “shorthand expression for the institutional framework in which contracts are initiated, negotiated, monitored, adapted, and terminated” (Palay, 1984:265). In this thesis, governance refers to the formal and informal rules of exchange between two or more business partners (see, for example, Griffith and Myers, 2005; Wathne and Heide, 2004). Compared with the term control, governance is a wider term (Selznick, 1994) since it also includes elements of establishing and structuring exchange, but also aspects of how to manage these exchanges (Heide, 1994).

Williamson (1975) discussed governance as a choice between a marked-based on governance through price mechanisms and a hierarchy based on governance through authority structure. The transactions cost theory (TCE) views governance in terms of designing particular mechanisms for supporting economic transactions (Heide, 1994:73). In the perspective of TCE, a contract between two business partners is a specific transaction, agreement and promise, and the exchange is defined by price, asset specifics and safeguards, but under the condition and assumption that quality, quantity and duration are specified (Williamson, 1996:337). The content of the contract is often designed with formal rules and quantifiable measurements so that the contract can be evaluated. Due to this, there is little focus on personal activities in the contract.

The market and hierarchy have been seen as a dichotomy where many transactions take place through various co-operation forms in which different degrees of control occur from the hard classical contract law, where the contract itself is the ruling of the perspective in which the social relationships that are developed over time may be more important. Each form is supported by clear contractual arrangements often characterised as discrete, short-term and, arms-length focused. However, today this market-hierarchy dichotomy is instead described as a continuum, rather than a dichotomy, where different

---

2 Williamson (1985) claims that TCE can be of use in any exchange issue where the exchange can be expressed as a contracting problem. This means that the TCE expresses the neoclassic law as compared to the classical law which recognises and allows for changes to incomplete contracts. This also shows that there is more to the continuum than two opposite ends.
forms of contractual solutions exist. But most of them have the starting point in the dichotomy, where operations carried out in the market are underpinned by classic formal contracts, and where transactions take place in an arms-length distance and possible conflicts are resolved in a formal way.

The theories selected serve the purpose to explain institutions, contract rule and informal bindings between the parties in the economy; and they are also used in order to explain issues around formal and informal agreements and binding effects. Further, they are used as tools for explaining whether the contracting should be internal or external and also as a way for a manager to obtain a better basis for decision. This means that one of the factors surrounding the contracts is that in an economic perspective it will minimise the transaction costs that arise with regards to the costs incurred in the negotiations surrounding the contract, the establishment of the contract, which then ensures the contents of the contract and then governed by the contract (see, for example, Williamson 1975; 1991). The criticism being directed towards this perspective, which is a basic assumption, is that human beings are rational and thus can act rationally. Given that there are costs associated with contracts, there seem to also be various forms of regulatory mechanisms that have an impact on governance as elected, as well as efficiency.

In general there are two types of strategies that occur in literature (Griffith and Myers, 2005): economic governance strategies, such as contracts (Lusch and Brown, 1996); and relational governance strategies, such as relational norms (Heide and John, 1992). The first strategies are dependent and based heavily upon contract law and the latter on relation theories.

**Contractual governance**

Williamson (1996) argued that contracts play an important and active part when studying governance forms. Formal contracts are those that are legally enforceable and are introduced as a governance mechanism for the safeguarding of a transaction’s specific assets from opportunism (Williamson 1975; 1996). Hence, contracts are not just collections of promises that are most often emphasised by classical legal scholars (see, for example, Furlotti, 2007). Contracts are also foundations that establish the procedures on how to govern a relationship over time, which Goldberg (1976) early pointed out. This conceptual background can be found in the combination of transaction cost
economics (Williamson, 1975) and the relations exchange theory (Macneil, 1974). Moreover, as with legal written documents, contracts explicitly specify the obligations and rights of the parties to a business relationship; as such they constitute a foundation for the measurement and control of business performance (Bryntse, 2000). In this governance role, contracts not only demonstrate an organisation’s intention to fulfil its mission and vision, but they also serve as a means of managing an organisation’s day-to-day operations in terms of its contractual obligations. In this sense, contractual governance is neither purely hierarchical nor purely market-based (Williamson, 1975); rather, contractual governance represents an intermediate form of governance (Bryntse, 2000), which is the view in this thesis.

In this thesis, contractual governance refers to explicit, formal and generally written contracts. Contracts are, as stated previously in this chapter, formal detailed legally binding agreements that specify the obligations and roles between two or more business partners. This means that contracts can in this respect be seen as an alternative for formal hierarchy (Ferguson et al. 2005), which is in line with being seen as an intermediate form.

**Relational governance**

Relational governance is a strategy that is based on the idea that there are many non-legal sanctions that make the parties in the business relation fulfil their commitments and obligations. Relational governance is built on the work of Macaulay (1963a), which Macneil (1980) developed. According to Macneil (1980) the term contract is defined as “...no more and no less than the relations among parties to the process of projecting exchange into the future” (p.4). The term of ‘contract’ is expanded to refer to the whole relationship between the business partners that have previous experience of exchange, or expect to exchange in the future (Macneil, 1980, 2000). According to Macneil contracts and exchange are two interrelated concepts and exchange is described on a continuum from discrete to relational exchanges (Macneil 1980, 1983, 2000). The relational governance is characterised by flexibility, solidarity and information exchange (Poppo and Zenger, 2002). As such, relational governance can be seen as rather informal and social when compared to contractual governance.

The two strategies of governance are differently considered in previous research and a few studies have combined and studied their interrelatedness (Cannon et
What can be concluded is that, within relational governance more studies are made concerning services compared to the studies on contractual governance notwithstanding the increase of using contracts to manage services (Dean and Kiu, 2002). A question is, if these two governance strategies (especially contractual governance) will change due to the dominant logic shift from goods to service (Vargo and Lusch, 2004).

**Final comments of on the theoretical framing and positioning**

Previous research does not provide much empirically based knowledge when it comes to using contracts in order to manage services. Therefore, I have used the contract literature together with concepts from service research that focus on the prerequisites for services for the empirical driven study in this thesis. In order to fulfil the aim of this thesis and to contribute to a deeper understanding of using contracts to manage services in business-to-business relationships I have used contract theories to enrich and also understand how contracts are used to manage services and thus make contributions to service research.
CHAPTER 3

Empirical context and method

This chapter provides a comprehensive description of the research strategy and the methods that has been used. Firstly, there is a section that gives a background on the public transport sector, which constitutes the empirical setting and the source of the data collection. Secondly, there is a section that discusses research approach. Thirdly, there is a section that gives an overview of the research methodology (including how data is analysed) that is used in the six appended papers. The chapter ends with a reflection of the research process that constitutes this thesis.

The empirical context – a background

The chosen context, the Swedish public transport sector, consists of a complex network of service organisations with relatively well defined services\(^3\) and different contractual solutions. The context was chosen based on theoretical sampling; that is, due the fact that it is suitable for illustrating relations and logic among constructs (see, for example, Eisenhardt and Graebner, 2007). Further, the research strategy and chosen methods require familiarity with the contractual content and thus collection and use of contracts, without revealing the company’s business secrets that are included in the contracts. The context was also chosen based on practical considerations to ease sampling (Patton, 1990). Thus, the context is suitable as contracts play a prominent role in the public transport sector. More specifically contracts state the explicit guidelines that govern the purchase arrangements, including the service\(^4\).

---

\(^3\) The service in the public transport sector can be described as relatively homogeneous as the service offered is mainly to go from one destination to another. The users of the service have however, different needs to be considered when providing the service and also designing the contracts. This does not mean, however, that the service is uncomplicated. The service is provided in a complex business setting (value creating network) where many parties are involved in providing the service.

\(^4\) In the public transport business the contracts are used actively. The contracts are a prerequisite for the business, as the service is contracted out to an external service provider in competition with others according to the procurement act (SFS 2007:1091; 2007:1092), which makes the contract vital. Today about 95 per cent of all public transport service is contracted out in competition with others, and this also makes the contract a natural part of the day-to-day operations.
Even though, the public transport sector and the contracts within the sector were chosen as the research context and object, during my doctoral education I have considered if it would have been fruitful to study different business contexts and compared the contracts between businesses. This would of course have been interesting but since the knowledge was rather sparse at the beginning of the studies it seemed to be more suitable to look deeper into one context, and contracts within one business sector. The contract solutions within the public transport business differ. It would have been possible to choose other contexts and other methods, and this is always a consideration that the researcher makes.

**Public transport in Sweden**

Today, the Swedish public transport sector (like many other public service organisations) faces a challenge in providing an attractive public service within often very limited financial resources (Swedish Government Official Reports 2001:106; 2003:67). In order to meet these challenges of political and economic pressure, competitive strategy (see, for example, Parasuraman et al., 1988; Porter 1980; 1996; Hensher, 2003) has become important in order to increase effectiveness, efficiency and to create a highly valuable service for the user of the public system (Dean and Kiu, 2002; Brown and Potoski, 2004; Brown et al., 2006). Environmental factors need to be considered in order to achieve a sustainable society (Johnson, 2007). Improvements of the supplied service can attract more users through the creation of competitive advantages. This might in turn affect the financial issues of public transport as well as comprehensive problems on the societal level such as congestion, air and noise pollution and energy consumption, which are all important in today's society. As such, it has been considered important to offer public transportation services that are more reliable and customer orientated (see, for example, Swedish Government Official Reports 2003:67; Koll framåt, 2008). Nevertheless, it can be difficult to provide a service that is more reliable and customer orientated, therefore contracts are used to manage public transport services.

The responsibility for developing and delivering public transport services in Sweden is legally divided between multiple actors (Swedish Government Official Reports 2003:67; Koll framåt, 2008). Public transport services are operated by 21 local contractors (public transport authorities) on assignment of the Swedish government (Swedish Code of Statutes 1997:734). Further,
privately owned service providers perform the actual service delivery (Swedish Government Official Reports 2003:67; Koll framåt, 2008) meaning that contracts are drawn up between two business partners (see figure 3). As such, there are a number of actors that collaborate, relatively actively, within a framework of networks to co-create and provide a public transport solution to customers. Some of the contractors in the public transport sector have just one contract while others have a portfolio of contracts, depending on the structure of traffic in each county.

In Sweden public transport service providers are selected by means of a public tendering process that is regulated by the Public Procurement Act (Swedish Code of Statutes 2007:1091; 2007:1092). Though there are some differences, the general principles of the act are similar to the European Directives that governs public tendering (EU Directives 2004/17/EC; 2004/18/EC), which are incorporated into Swedish law (Foster, 2008; Eliasson et al, 1998; EU Article 288). The Public Procurement Act (Swedish Code of Statutes 2007:1091; 2007:1092; EU Directives 2004/17/EC; 2004/18/EC) states that the factors that determine whether or not a party should be awarded a contract, should be clearly specified in advance. In order to give all actors an equal opportunity of being awarded a contract, factors such as previous experience and relationships between parties should be prevented from influencing the selection of service providers. Further, the Act stipulates that price (assuming a certain standard of service) is the dominant factor in deciding who will be awarded the contract.\(^5\)

\(^5\) The lowest price (assuming a certain standard of service) is the dominating factor but the law also stipulates that the contractor can accept the bid that is economically most advantageous for the contractor. However if the economically most advantages is used the act stipulates that it is vital to
Contracts negotiated under the Public Procurement Act also have a fixed expiry date, which means that relationships between the contractor and the service provider ends on this date of the contract, and a new round of public tendering must then be held. This indicates that the relationships of a public procurement can be characterised as discontinuous – i.e. the relationships have a distinct beginning and ending. Further, in these kinds of business constellations the relationships and agreements should be fulfilled from day one of the contractual period.

The research approach

When undertaking research, a question that often arises is what method is. Methods mean different things in different contexts. There are both detailed descriptions of techniques used as well as research strategies for the entire research project. However, my overall view is that methodology is what researcher use to study a phenomenon (the object) with the aim to produce knowledge. When carrying out the research on the object, different techniques and tools, as well as different philosophy perspectives are used. What I believe exist (ontology) influences what is possible to find when searching for knowledge (epistemology). The ways knowledge can be obtained, is both methodology and method. Methodology in my view is understood as a comprehensive overall research approach that can be seen as a guidance of how the researcher should gain knowledge about the studied object. Methods on the other hand can be seen as the foundation for and the tools to be used when gaining knowledge about the studied phenomena. Methods constitute of a mixture of different perspective of science philosophy and the tools and techniques used can be seen as the foundations for the work with the empirical material. This means, for me, that methods are something more than the actual tools and techniques used for doing the research; it is also a way to approach the object to study, the questions asked and the answer sought, the interpretation, and how to present the insight is also included. Methods are seen as reflective activities.

My overall research approach is inspired by the reflexive methodology (Alvesson och Sköldberg, 2008). This approach seemed appropriate in order to specify the grounds that the contracts can be awarded for and how these criteria should be evaluated (Swedish Code of Statutes 2007:1091; 2007:1092).
interpret how the six appended papers contribute to the fulfilment of the overall aim of this thesis, which is to contribute to a deeper understanding of using contracts to manage services in business-to-business relationships. All six papers are based on empirical studies that used a qualitative method. This is, a suitable method for exploratory, descriptive and explanatory reasons (Yin, 1994, 2003). Each paper can be seen as single studies but together these papers contribute to the overall aim.

The reflexive methodology has its roots in the hermeneutic tradition (Alvesson and Sköldberg, 2008), searching for deeper understanding. The parts can only be understood if it is related to the whole (Alvesson and Sköldberg, 2000: 53). I argue that the understanding of each of the six papers can be seen as different parts or levels of pre-understanding. Together these develop a capacity to interpret and understand the whole. I have re-read the papers and I have asked myself new questions in relation to the material in a reflexive manner. In doing so I have managed to form a new understanding of the whole; i.e. elevating the contributions of the six papers.

Methods for collecting data

The choice of methods for collecting empirical data was based on the research situation and the overall aim of this thesis (Yin 1994). In order to get a strong and sustainable substance in the material, three methods for collecting data have been used, in various combinations, in this thesis. Data for this thesis were collected by: (i) using authentic formal contracts between the contractor and the service provider; (ii) doing interviews; and (iii) using documents (such as annual reports, internal and external materials from the contractors, as well as reports from other trade organisations and the service providers). This rationale of using multiple sources of evidence is in line with established principles of data collection (Eisenhardt, 1989; Yin, 1994; Lader, 1998).

Contracts

Previous research has acknowledged a need for more research about the form and nature of formal contracts (see, for example, Furlotti 2007; Mouzas and Blois, 2008), since previous studies are not to a large extent based on authentic contracts (see, for example, Furlotti, 2007). In order to study how contracts are
used to manage services, authentic formal contracts were used. The contracts do not just regulate the prerequisite for the service or service quality; they also include obligations and duties between the contractor and the service provider, as well as the entire governing structure.

A total of 21 comprehensive and extensive contracts from the route-bound traffic were studied. The contracts are estimated to be approximately 50 to 300 pages each, meaning that approximately more than 2,000 pages were studied altogether. The material is very informative and that it is a good ground for investigating the use of contracts to manage services. To use contracts as an empirical material has been useful, but the material is extensive it has also been a challenge to analyse the contracts. During the research process I have studied the contracts thoroughly, several times to get a good knowledge of the content of the contracts and contracts in general. I started by reading through the contracts to learn about their contents, and how the contracts were designed and formed, in order to get a basic knowledge of them. Notes were made in the contracts but I also used the technique of memos (Miles and Huberman, 2004) to develop lines of thoughts and reasoning. After analysing the contracts separately I started to compare them with each other in order to investigate if there were any similarities and or differences between the contracts; or if I could find a pattern emerge between them in relation to the content, design, writing and structure.

Even though the design and content of the contracts differed some of the main items that describe their content were found to be universal. The following information that is reflected can be found in each contract:

- data of the contracting parties (name, company, etc.)
- obligations and duties between the parties
- evaluation criteria
- type of service and the description of the public transport area (the route and flexibility)
- how to perform the service
- specifications regarding vehicles standards

6 Within the organisations there are also contracts concerning support services such as stations, cleaning, personnel, etc.
• environmental issues (what to focus on, systems for achieving the environmental goals and pollution factors)
• employees (rules regarding the drivers, for example)
• professional skills of the service provider
• the expire date of the contract

This first analysis of the contracts was done early in the research process and facilitated further analysis.

All of the 21 collected contracts were used as research samples in papers I, II and IV. For papers III, V and VI, a sample of the initial 21 contracts were used in combinations with interviews and other documents, such as annual reports, traffic planning reports, internal and external information materials. During the research process I was also able to study more recent contracts than those that were first collected. This has helped to verify the results of the contract analysis. Data collected from the total sample of contracts have also been used throughout the research processes for triangulation purposes.

A summary of the collected contracts is presented in the table 2. The table is structured based on four categories. The first category of contract types comprise the following: Gross contracts, where the service provider is paid a fixed amount of money for a fixed amount of traffic from the contractor, or net contracts where the service provider's earnings are based on ticket sales. In this type of contracts the service provider is completely dependent upon ticket sales as a source of income. Gross contracts with incentives – is where the service provider is paid for the public transport services provided, and gets paid extra if these meet certain criteria. The last type of contracts is the mixed contracts, which is a combination of net and gross contracts.

The second category is dependent on the size of the contractor. The 21 contracts can be divided into groups based on the number of travellers that are handled each day. Eighteen of the contractors handled less than 30,000 travellers each day. They were labelled small. Two of the contractors handled between 100,000 and 200,000 travellers each day, and were labelled medium. The final contractor had about 700,000 travellers each day and was thus labelled large.
The third category is the number of contracts that the contractors have (this is not the entirely contracts that can be found at each contractors and the focus is on the route-bound traffic). Single is defined as one contract with the service provider. Several is defined as when the contractors has between one and 10 contracts with different service providers. Portfolio is defined to have more than 10 contracts with different service providers. The last category is the type of the traffic that the contractors have in city or regional traffic; or both types of traffic.

<table>
<thead>
<tr>
<th>Contract</th>
<th>Type of contract</th>
<th>Size of contractor</th>
<th>Number of contracts</th>
<th>Type of traffic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross contract with incentives</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>2</td>
<td>Gross contract with incentives</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>3</td>
<td>Gross contract with incentives</td>
<td>Medium</td>
<td>Portfolio</td>
<td>City, regional</td>
</tr>
<tr>
<td>4</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>5</td>
<td>Gross contract with incentives</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>6</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>7</td>
<td>Gross contract with incentives</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>8</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>9</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>10</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>11</td>
<td>Gross contract with incentives</td>
<td>Medium</td>
<td>Portfolio</td>
<td>City, regional</td>
</tr>
<tr>
<td>12</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>13</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>14</td>
<td>Gross contract with incentives</td>
<td>Large</td>
<td>Portfolio</td>
<td>City, regional</td>
</tr>
<tr>
<td>15</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>16</td>
<td>Mixed</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>17</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City</td>
</tr>
<tr>
<td>18</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>Regional</td>
</tr>
<tr>
<td>19</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>20</td>
<td>Gross contract</td>
<td>Small</td>
<td>Several</td>
<td>City, regional</td>
</tr>
<tr>
<td>21</td>
<td>Gross contract with incentives</td>
<td>Small</td>
<td>Single</td>
<td>City</td>
</tr>
</tbody>
</table>

Table 1 A summary of the analysed contracts

A question that I have been confronted with several times during the research process concerns the fact that the contracts can contain sensitive and secret information, so the problem is: how this should be handled? What I have experienced is that this has not been an issue that has caused any problems in my studies. If something in the contracts has been removed\(^7\), it has mostly been concerned with the price for the whole business but this has not affected my overall aim of the thesis or the research strategy in the various papers.

\(^7\) This has happened in 3 out of the 21 contracts.
In order to get a comprehensive picture of the studied context and also to strengthen the analysis of the route-bound traffics contracts, their content and the process of creating contracts, I also studied contracts connected to the organisational structure of the contractors and their service providers in order to get a deeper knowledge of the context. To provide a rich description of the setting under study is important to ensure quality of the research (Lincoln and Guba, 1985; Seale, 2007).

**Interviews, informal discussions and meetings**

Interviews were used to generate an understanding of the contracts, the contents of the contracts, the business environment that the contracts act in, as well as the business relationships and how the contracts are used in the public transport sector. In this thesis, interviews served two purposes: (i) as exploratory/preparatory and (ii) data collection methods for the different studies (in papers III, V and VI). The first round of interviews was of an exploratory nature in order to gain a deeper understanding of the context under study. This approach was deemed appropriate due to the importance of getting to know the studied contracts and how CEOs, managers and other people involved in the business relationship viewed and used them. The aim of the interviews was to gain information about contracts and learn about the research context, the public transport sector and how it is organised and structured, as my knowledge about the business was almost non-existent prior to this research. These exploratory interviews can therefore be described as preparatory. The first round of interviews resulted in pre codes that were used to create the interview guide for the interviews in the second round.

The second round of interviews was aimed at data collection in order to fulfil the aim in papers III, V and VI. In these papers the interviews were used as a data collection method combined with data from contracts and other internal and external documents from the parties in the contractual dyad. Interviews were performed with key respondents (Alvesson, 2011) and with regard to the aim of each study. A more thorough presentation of the data collection and analysis in the different papers is discussed in the section below.

---

8 My knowledge was like most people’s knowledge: to go from one destination to another and the important factor is that the public transport actually works and that the vehicles run. Questions like who has the responsibility for the traffic, how is it organised and who is actually driving the traffic had no relevance to me, until I started the research project.
In addition to the interviews, informal meetings and discussions took place with other actors in the public sector; for example, with representatives of trade organisations such as The Swedish Public Transport Association. In addition, I had the opportunity to attend meetings along with persons who were working with or involved in the public transport business, which were important for the understanding of the context under study. The informal meetings at events such as workshops and conferences, or before formal interviews, often resulted in discussions with actors from within the public transport sector. These discussions provided the opportunity to ask questions beyond the specific research aim and research questions; for example, historical, political and organisational issues, but also issues that were related to the contracts and the contracting process. In this way, important contextual information, which indirectly contributed to my understanding of the public transport business, contracts and the contracting process were gathered. These informal meetings also allowed me to ask questions and clarify thoughts that had occurred during the process, and to strengthen the relation to the research field. As such, the informal discussions were important to establish and maintain the relationship with the persons within the public transport sector and, in particular, persons that were involved in the contracts and the contracting processes. It was deemed important to create trust and cooperation with the persons in the business in order to access data when needed or to be able to ask questions when needed.

An observation is that that the persons that I have interviewed and met during more informal circumstances have discussed contractual issues very openly with me. This does not mean that I have freely spoken about the content of the contracts. I have earned their trust and not spread the material to competing partners. What I have learned is that this is not unique for this business. However, I believe that it has been an advantage for me that I belong to the transport research group SAMOT (the Service and Market Oriented Transport research group) at the university. The research group is well established and well-known within the public transport sector, which facilitated the access to the data, as well as to contacts within the business.

Most of the informal meetings were with persons within the public transport business. I have, however, during this research process looked into two other businesses (private business within the pulp and paper industry and an aeroplane manufacturer) and their contracts. I met with the managers from
these businesses, who were responsible for the contracts and the contractual processes. I also had the opportunity to look at their contracts (signed). Even though these two businesses have not been a part of the research sample, it gave me some perspective on my research context and the contracts. It also helped me to look at the contracts that I have used with fresh eyes.

**Documents**

In the current thesis, a number of internal and external documents were collected and analysed. The documents were mainly from the contractors but also from the service providers and trade organisations within the public transport sector. The reason that the documents are mainly from the contractors is because they have the responsibility of providing the traffic and they are also responsible for the public procurements. The documents collected can be divided into four types: (i) documents specific to the contract and the contracting process; (ii) internal documents from the contractors (e.g., reports of quality issues, quality systems, internal information material about new procurement processes, protocols); (iii) external documents (annual reports, traffic-planning reports, information material, information from the organisation); and (iv) documents from trade organisations and other governmental organisations that have an interest in the public transport sector. For example, Government official reports about a new law concerning the public transport sector. The documents served as unique data on their own but were also able to be used to support and confirm other findings (Ladner, 1998). As the documents collected for this thesis are produced for both internal and external use, it is important to be aware of what purpose the documents are created for and who takes part in the design of them. The documents provided me with background and contextual information that contributed to my ongoing understanding of the public transport sector. The documents in this study are not just restricted to written material. Digital resources are also used and are classified as documents such as websites and the electronic information produced by the organisations.
Research methods in the appended papers

The choice of methods should be based on the research problems and questions (Yin, 1994). To investigate the use of contracts to manage services in business-to-business relationships a qualitative approach was used. The data that was collected differs between the papers. Table 2 provides an overview of the research methods in the six appended papers. The table shows the type of paper, research aim approach, the data collection and the empirical base of the papers. The methods used in the papers are discussed below.
<table>
<thead>
<tr>
<th>Research Issues</th>
<th>Type of paper</th>
<th>Aim</th>
<th>Research approach</th>
<th>Data collection/method used</th>
<th>Empirical basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper I</td>
<td>Research paper Empirical</td>
<td>To identify, describe and analyse service quality description in the contract</td>
<td>Qualitative</td>
<td>Content analyses and document studies</td>
<td>21 contracts between contractors and service providers</td>
</tr>
<tr>
<td>Paper II</td>
<td>Research paper Empirical</td>
<td>To deepen the understanding of how contracts are used to manage prerequisites for services and thereby service quality in business to business relations</td>
<td>Qualitative</td>
<td>Content analyses and document studies</td>
<td>21 contracts between contractors and service providers</td>
</tr>
<tr>
<td>Paper III</td>
<td>Research paper Empirical</td>
<td>To analyse how formal written contracts influence long term business to business cooperation, and to identify the characteristics of the relationship in formal settings</td>
<td>Qualitative Single case study</td>
<td>In-depth interviews, contracts and documents.</td>
<td>Interviews with general managers and operational managers. This is complemented by contracts and other internal documents from both parties in the relationship</td>
</tr>
<tr>
<td>Paper IV</td>
<td>Research paper Empirical</td>
<td>The aim of this paper is to explore how contracts are used to build and develop long-term relationships in a context where trust cannot be anticipated in advance – i.e. there is a lack of the initial trust</td>
<td>Qualitative</td>
<td>Content analyses and document studies</td>
<td>21 contracts between contractors and service providers</td>
</tr>
<tr>
<td>Paper V</td>
<td>Research paper Empirical</td>
<td>The aim of this paper is to argue for contractual governance as the creator of more dynamic and sustainable contractual relationships as a means of expanding the concept of performance management, in order to become more proactive in the governing process in the inter-organisational relationships of a stakeholder network.</td>
<td>Qualitative Multiple case study</td>
<td>Semi-structured interviews, contracts and documents.</td>
<td>Interviews with three to five executives/managers from three different contractors. Contracts, internal and external documentation such as annual reports, traffic planning reports.</td>
</tr>
<tr>
<td>Paper VI</td>
<td>Research paper Empirical</td>
<td>Is to explore the links between the contractual governance and performance measurement in service research.</td>
<td>Qualitative Multiple case study</td>
<td>Semi-structured interviews, contracts and secondary material.</td>
<td>Interviews with three to five executives/managers from three different contractors. Contracts, internal and external documentation such as annual reports, traffic planning reports. Data from the investigation initiated by the Swedish Government on public transport named 'Kol Framåt'</td>
</tr>
</tbody>
</table>

Table 2 An overview of research issues in the appended papers.
The first paper is an empirical analysis of 21 contracts between contractors and service providers. The research sample in the first paper comprised 21 contracts (which equates to at least one contract from each contractor). The contractors supplied me with three different kinds of data; (i) contracts between themselves (contractors) and their service providers; (ii) written internal materials such as articles of partnership, traffic-planning reports and other internal materials; e.g. educational materials, presentations, minutes, etc.; and (iii) external materials; e.g. annual reports, traffic planning reports and other written public documents concerning these organisations. The written internal and external materials were used in order to deepen the understanding of the contracts, the organisations providing public transport in Sweden and the service providers, but also in triangulation purposes. To use different sources of data has been important as it gives a stronger and more sustainable substance to the material. But it is also important as it widens the understanding of the studied phenomena and allows it to be seen from different perspectives (Eisenhardt, 1989).

Following the case-study analysis method that is recommended by Eisenhardt (1989), and inspired by the process of grounded theory approach suggested by Strauss and Corbin (see, for example, Strauss 1987; Strauss and Corbin, 1990), the contents of the contracts were analysed. Focus was on how service quality was described and defined in the contracts. Firstly, the focus was on the factors **per se** and secondly, on how service-quality descriptions were placed in the contracts. The analysis is divided into three stages. Firstly, descriptions of how service quality in the contracts was identified. This means that the focus was not just on the terms 'quality' or 'service quality' in the content of the contracts, but also on issues that could be connected with the quality descriptions in each contract. Open coding was conducted by noting comments in each contract with a focus on the service quality descriptions in the contracts, as this was especially relevant to the focus of the present study. The second stage of the analysis was to identify categories concerning how service quality was described in the contract. After analysing all the contracts separately, and making comments about them, the comments were then compared with each other. The comments were summarised as keywords and phrases in order to be able to identify service quality in the contracts as well as how this is defined and described. The keywords and phrases constituted the basis for the identified factors. Thereafter the keywords and phrases were summarised in order to
create categories. Memos have been used (Strauss and Corbin, 1990; Miles and Huberman, 2004) to write down my thoughts, reasoning, and arguments or questions that arose during analysis.

**Paper II**

The data in the second empirical paper consisted of the same 21 contracts that were used in paper I. Further data consists of secondary material; for example, written internal materials such as articles of partnership, traffic-planning reports, educational materials, presentations, minutes etc.; and external materials such as annual reports, traffic-planning reports, and other written public documents concerning these organisations.

The data were analysed following the case-study analysis method that is recommended by Eisenhardt (1989) and by using the techniques suggested by Strauss and Corbin (see, for example, Strauss, 1987; Strauss and Corbin, 1990). The analyses were done in two steps. Firstly, the contracts were analysed in order to learn about the contracts as such. Secondly, the focus was on issues within the area of managing service through contracts in order to understand how the prerequisite for the service was managed and thereby service quality.

The formal coding was done in two phases. In the first phase the prerequisites for the service were investigated and in the second phase how the prerequisites were managed in order to achieve a service of high quality. In the first phase, data was coded in an inductive way by using the techniques of the constant comparative method (Glaser and Strauss, 1967). Open coding was conducted by noting comments in each contract, with the focus on the prerequisites for the service, as this was particularly relevant to the present study. A basic coding frame was extracted from the contracts. The codes were held close to the text and more interpretive codes (Miles and Huberman, 2004) were used. Text segments in the contracts were related to the same code when considered necessary, which meant that the same code could be applied several times in one contract. After analysing, and commenting on, all of the contracts separately, the codes from each of the contracts were then compared. The codes were revised, regrouped and changed and regrouped again. Gradually the coding frame developed and was confirmed. In the second phase the prerequisites for the service were analysed in order to understand how service quality is managed through contracts. Keywords and phrases were analysed further and finally the categories of how to manage the prerequisite for the
service and thereby how service quality is managed through contracts, emerged. In parallel with the analyses, memos were used (Strauss and Corbin, 1990; Miles and Huberman, 2004) to record thoughts, reasoning and arguments, or questions that arose during the analyses.

**Paper III**

The third paper is an empirical paper that uses in-depth interviews and authentic contracts. The respondents for the interviews were selected based on the following criteria: (i) their experience; (ii) knowledge; (iii) and involvement in the procurement and the contractual process, on both sides of the contractual dyad. This resulted in the participants only where managers and planners from both the contractors and the service providers. The persons are purposely chosen because of the important information that they can provide, which is a strategy that is described as a purposeful sample (Patton, 1990; Merriam, 1998). The informants’ knowledge and experience of the contract process was necessary for the discussion of how the contract affects business relationships.

The interviews took place at the participants’ office. A semi-structured interview guide was used to provide some structure to the interviews while allowing the informants the opportunity to speak as freely as possible. The interviews were designed to unfold the experiences and knowledge from the participants about the contract, the contract process and the collaborations between the parties that result in the ability to deliver a service of high quality. Areas that were discussed during the interviews were the business relationships, the contract processes, the contracts as management tools and development strategies and plans.

The interviews were conducted over a period of two years, during 2005 and 2006, which enabled the interviews to be conducted from the beginning of the contractual period and up to two years afterwards. The duration of the interviews varied from 30 minutes to 150 minutes. Each interview was recorded and transcribed verbatim. Some follow-up interviews were later conducted by attending some meetings with the interviewees.

The aim of the analysis was to identify how the managers described the relationship between the contractual partners and how the relationship was
actually managed. In doing the analysis, the traditional steps of quality data were used (Miles and Huberman, 2004). The coding was done using marginal remarks that identified keywords (Miles and Huberman, 2004). This enabled the data to be coded and organised with a view to gaining an understanding of the following: (i) how the formal written contract had affected the ongoing business relationship between the parties; and (ii) the characteristics of the relationship that had been created.

The analysis of the contracts and the other documents that were used aimed to identify the factors that pertain to the interactions and the overall relationship between the parties. Because the contracts were complex legal documents of 300 pages that covered a wide variety of topics, the documentary analysis was confined to matters pertaining directly to the research questions addressed in this study – that is, matters connected with the relationship between the parties. The data from both the contract and the other documents were analysed in a similar manner to the data from the interviews.

**Paper IV**

The fourth paper is empirically based also on the same 21 contractual papers that are mentioned above and it focuses on the dyads between buyers and suppliers within the public transport sector in Sweden. The data analysis was conducted in two phases. During the first phase a study of the 21 contracts was conducted in order to develop a clear understanding of the contractual situation between the service provider and the contractor. When we undertook the analysis, we followed the steps suggested by Creswell (2003). The first phase of the analysis enabled us to identify different parts of the contracts, as well as how the contracts were written (i.e. the wording of the contract), and how the content of the contracts were structured. The analysis of this phase showed a pattern that can be clustered into four characteristic features. The first characteristic was the payment structure (gross contract, net contract and/or mixed contracts). The second characteristic was the size of the contractor (number of travellers handled on a daily bases). The third was the number of service providers (single versus. portfolio), while the fourth was the structure of the traffic (mode of transport; for example buses, trains, trams and long versus short distances). Based on the characteristics found in this first phase, we chose to deepen the empirical investigation by selecting four contracts (each representing one of the characteristics above) in order to deepen the
understanding of the contracts’ role in building relationships and what the contracts’ role(s) are in the contractual dyad in the public sector.

The unit of analysis in the second phase is the bonds that arise or are created between the actors in the contractual dyad. The parameters used to analyse the selected four contracts are described in the table 3 and based on the theoretical frame used in the paper IV (see paper IV).

<table>
<thead>
<tr>
<th>Parameters studied</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual settings</td>
<td>How the contractual situation is organized, number of contracts the contractor has, structure of the public transport services etc.</td>
</tr>
<tr>
<td>Degree of detail in contract</td>
<td>The design of the contract, how detailed it is, and its duration etc.</td>
</tr>
<tr>
<td>Financial issues</td>
<td>The use of financial aspects to create desirable behaviour.</td>
</tr>
<tr>
<td>Technical issues</td>
<td>The degree of technical specifications in the contract as regards adjustments to products and processes to meet partner requirements.</td>
</tr>
<tr>
<td>Issues of creating trust and social bonds</td>
<td>Wording of the contract to create trust and social bonds between the parties.</td>
</tr>
<tr>
<td>Cultural issues</td>
<td>The creation of a subculture in which the supplier is a provider.</td>
</tr>
<tr>
<td>Knowledge issues</td>
<td>How to create learning between the parties within the relationship domain.</td>
</tr>
</tbody>
</table>

Table 3 The parameters created in order to analyse the contracts

**Paper V**

Paper five is an empirical paper based on data from interviews that were carried out during the years of 2001 and 2004. The aim was to learn more about the participants’ experience of the contracts and the contract process, and how the contract is used as a management tool. The interviewees were selected purposefully (see, for example, Patton, 1990; Merriam, 1998) on the basis of the interviewees experience and/or knowledge about contracts, procurement and tendering processes and performance. Therefore we ended up doing interviews with mainly with CEOs, executives and other managers involved in the contractual process, decision making and operations. At each contractor we interviewed three to five CEOs, executives and managers. The interviews took place at the participants’ offices and lasted between 30 minutes and three hours. All interviews were recorded and transcribed verbatim. During these years that
are mentioned above we did interviews on different occasions, and we have also had the opportunity to do some follow-up interviews when we received new knowledge about contractual and performance issues. In addition, some interviewees participated in subsequent workshops, which took place at the university (which were also recorded and transcribed).

The main theme that was discussed during the interviews was contracts, which include the content of the contracts as well as the contracting process (i.e. the procedure, the evaluations of the contract and how the parties work). Further issues discussed during the interviews were quality aspects of the service, performance measurements and management. The interviews were used as illustrations of the studied phenomenon.

**Paper VI**

The data in the sixth paper were collected during two phases. The first phase was between the year of 2001 and 2004 and the second during 2007. Three to five executives/managers from each contractor were interviewed. The interviewees were selected purposefully (Merriam, 1998) based of their personal experience in and/or knowledge of contracts, procurement/tendering processes, and performance. Due to the fact that contracts in the business are complex and extensive people that are not involved in the process do not have the same knowledge of the content and design. Each of the interviews took place at the contractors’ office and lasted between 30 minutes and three hours, were recorded and transcribed verbatim. In some instances, the data recorded in these interviews were supplemented by data from follow-up interviews and subsequent workshops (which were also recorded and transcribed).

A semi-structured interview guide (Silverman, 1996; 2000) was used to provide some degree of uniformity to the interviews while allowing the interviewees to speak as freely as possible. The interviews focused on: (i) contractual issues (including the content of the contracts and the contracting process, evaluation of the content and the contract); (ii) working relationships between contractors and their service providers (how they work together, what are the responsibilities of each part and how they communicate with each other in the day-to-day business); and (iii) quality and performance issues.
In the second phase of the study, which took place in year 2007, one of the authors of this study was invited to participate in a wider investigation that was initiated by the Swedish Government. The aim was to ascertain how public transport should be changed in order to become more customer oriented. During this time the authors participated in workshops, meetings and discussions that took place at least once a month. Data collected from these gatherings were supplemented with data from two documents associated with the Swedish Government’s public transport project ‘Koll framåt’ (Burwick and Sjövall, 2007; Enquist and Eriksson, 2007). The involvement in this investigation in 2007 enabled a comparison to be made of the data from 2001 to 2004 with the more recent data from most of the contractors and their largest service providers in Sweden.

Quality of the research – a reflection of the research process

This thesis includes studies performed with different research strategies and was analysed according to different research traditions. As with all studies, this thesis has its limitations. A few critical comments should be raised both about the limitations of the study and the trustworthiness of the results.

One limitation arises as a result of having collected data mostly from one side of the contractual relation – the contractor. Although the interviewees (when using interviews) discussed the service provider and the contractual relationship as well as the contract and the contracting process, I have only collected data from both side of the contractual dyad in paper III. Here the service provider is involved as well as the contractor. Consequently, the results of the studies have mainly a contractor perspective. I have however, considered when designing the different papers and the thesis to take both business parties’ perspectives, but I have only presented both perspectives in paper III.

A trade-off has also been made considering the customers (the user of the public transport service) by not involving them in the study. This was done because the intension was not to investigate the customers’ view of the contracts or how they experienced the contracts and as a consequence of this the service provided. The users do not in general have any experiences with the terms and conditions in the contracts and therefore a decision was made not to involve them. Many users of the public transport service are not aware that there is an external service provider that actually operates the traffic. They
associate the traffic with the contractor. Even though the customers are not directly involved in the studies per se, they are indirectly involved because in the contracts there are terms in relation to the customer of the service, for example issues related to the customers perceived service quality such as punctuality.

In three of the papers (papers III, V and VI), I have done case studies. The number of cases selected depended on the status of theory in the particular area. Easton (2007) argues that when an area has limited research potential it can be enough to just have one case. This is in contrast to there being a well-developed area where theories are well articulated, and where it can be more suitable to build on a comparative case study from different contexts and industries. In this study the considerations of the cases have been built on with both theoretical considerations as well as more practical considerations, since it has been relevant for me to gather the cases in a context where I have had the possibility to take part in the contracts’ contents. However, during the research process I have also considered other options, for example to compare private and public business contexts. The overall research design has been parallel instead of sequential, and the main objective of the overall research strategy was to design a study in order to get a wider understanding of using contracts to manage services. Fortunately, this research strategy has allowed a variety of analyses to be performed, and it has been possible to perform different studies in order to deepen the understanding of contracts in general and those that especially concern the contracts’ roles to manage services.

A limitation arises concerning data from the contracts that were collected. The 21 contracts used in paper I, II and IV were chosen by the contractor as they are in charge of them. The contractors were asked to pick out contracts that they found representative of their business concerning the daily public transport, as well as complementary documents that the contractors found essential to enclose in order to understand the contracts, the contracting process, the content of the contracts and the business relations. There are some risks associated with the fact that the contractors themselves have picked out the contracts, this is because they have selected them based on what they found to be the most important or the ‘best’ according to their own criteria. This is especially relevant when it concerns a contractor that has more than one contract, or a portfolio of contracts to choose between. However, I have had the opportunity to analyse newer contracts from some of the contractors during
the research process. This has been a good way to see the developments of the content and has also been good for triangulation purposes.

A critical comment may be made with regard to the classifications of levels of service quality in the studied contracts. To ascertain the quality of the study I had the opportunity to check interpretations and descriptions with persons in the relevant business, respondents and other researchers. In future research efforts, it would be interesting to design a study that can enable a panel to judge the content and also develop descriptions of the data collected. Therefore a trade-off was made to not have a panel judge the content and make descriptions. However, in this study such an approach would have required other people to go through a larger amount of qualitative data in order to classify the content of the contracts, which has been discussed but is not suitable in this case due to the fact that it has not been possible for other persons outside of the research process to gain access to the content of the contracts. I have built up trust with the companies and persons within the business during the research process and even though some parts of the contracts are public, there are still some issues that should not be discussed with persons outside the process. However, this limitation has been discussed and I have also been able to discuss this with persons involved in research and persons in the business about the issues concerning the contracts’ contents without exposing exactly which contracts belong to which contractor.

Common questions arise concerning validity and reliability when doing research and when reflecting on the research process, – in other words, the trustworthiness of the study (Seale, 2007). Validity concerns the extent to which the research reflects reality and can be generalised across time, context and persons (Merriam, 1998). Reliability is the extent to which a study has minimised errors and bias (see, for example, Yin, 1994). As the terms of validity and reliability are most often used when assessing quantitative research I have chosen to use Lincoln and Guba’s (1985) terms and criteria to comment and reflect upon my research process: credibility, transferability, dependability and conformability.

Credibility was achieved by showing the material to and discussing it with persons that were involved in the research, or with whom that the interviews were carried out with. Credibility also has to do with being critical to the
methods that are used and the fact that there are other methods that can be used (Lincoln and Guba, 1985).

In order to achieve research credibility the following activities were conducted:

- The use of multiple and different sources of data material; I have interviewed a number of people, used the contracts and related documentations to the contract, other internal and external documents, and other reports. I have participated in different meetings with the persons in the public transport sector.
- I have also had the opportunity to follow the particular business during my time as PhD student, which has allowed me to take part in changes that have taken place in the business and also in the development of the business, which I have seen and have had described to me. This has led to what I have learned about the context and the culture of the context.
- I have also had the opportunity to check interpretations and descriptions with the persons in the businesses but also with the respondents.
- I have discussed findings and conclusions with colleagues. But I have also had the opportunity to get feedback from journal reviewers and from my presentations of the research at conferences; nationally as well as internationally.

In the papers, as well in this framework, descriptions are provided of the study research context in order to achieve transferability (Lincoln and Guba, 1985). Dependability, which is a criterion that has to do with how the data is documented, why different methods are used and also how the decisions are made during the research process (Lincoln and Guba, 1985). Lincoln and Guba (1985) claim that dependability can be achieved through audition, which is also something that is necessary for the conformability issue. I have used memos during the research process (Miles and Huberman, 2004) to document thoughts as well as the empirical material. I have also made my research process transparent for the reader through presentations of and discussions regarding the different methodological choices that I have made both previously in this chapter and in the various appended papers. By having a transparent and open illustration of the procedures it has strengthened the trustworthiness of the research (Seale, 2007).
CHAPTER 4

Summary of the results and the contributions in the appended papers

In this chapter the results and the contributions from each of the six appended papers are presented. Thereafter in chapter 5, the focus is on the contributions of the entire thesis, such as, how the contributions from the different papers add to the overall aim of the thesis. This is done in order to fulfil the overall aim and to answer the research question that is posed at the beginning of this thesis.

Paper I – Service quality on three management levels - a study of service quality in public tendering contracts

The aim of this paper was to deepen the understanding of how service quality factors are stipulated in advance within contracts, in order to ensure the provision of a high-quality service to the user. The focus is on how the concept of service quality is dealt with in the contracts. It has been acknowledged that there is a lack of empirical investigation regarding the nature and form of contractual arrangements (Furlotti, 2007; Mouzas and Blois, 2008) and the most previous research on service quality has focused on service quality from a customer’s perspective (see, for example, Schneider and White, 2004). Since the literature is sparse and empirical evidence of service quality in contracts is limited, it was decided to use an exploratory design that is aimed at developing a better understanding of the service quality design of contracts.

The first paper identified several service quality factors in the studied contracts and relates them to three management levels; the operational level, the strategic level, and the rhetorical level. The first management level, the operational level, is a resource-based level and focuses on the day-to-day prerequisites of the service outcome. Here I identified both general service quality factors such as safety and staff behaviour, and industry-specific factors such as style of driving, punctuality and CO2 emissions. The quality factors that were identified are comprehensive and most of them are well-known from previous service and transport research (see, for example, Gröntroos, 1984; Parasuraman et al., 1988; Hensher et al., 2003; Fellesson and Friman, 2009 respectively). The service-
quality factors in the studied contracts are specified in such great detail because the contractor wants to guarantee a certain quality level for the customers.

The second management level, the strategic level, is defined as a level that focuses on how to monitor the service quality in a systemic way. Hence this level is about frameworks that enable quality assurance and continuing improvement in order to achieve the goal of providing a service of high value to the user. Quality-management models such as ISO 9000 and 14000 and references to laws and regulations, as well as to the contractors to long term goals, are some frequent examples.

The last management level noted in the contracts, the rhetorical level, is visionary and focuses on missions and visions. Here I found factors directly related to public transport quality, such as satisfied customers, in order to have a good public transport service. However, most of the rhetorical factors address societal values in a wider sense (e.g. the needs of disabled elderly, and environmental ambitions, and public transport in general). The service-quality factors on the rhetorical level express aims or wishes, which should permeate through the entire organisation and the services in general. See table 5 for illustrations of the different management levels.
### Operational

- **Definition:** A resource-based level focusing on the prerequisites for the outcome of the offering.
- **Examples from contracts:**
  - The style of driving. The bus should be driven safely. The buses must be performed in a secure way. Services must be perceived as reliable and safe by travellers.
  - Low floor buses, numbers of seats, and space aboard vehicles and numbers per small river places, onboard climate (heat), cleanliness inside and outside.
  - Punctuality, total bus kilometres, frequency, service intervals, schedule delays, and the waiting environment are important factors.
  - Good driver behaviour is always essential. A customer will not be satisfied straight off... it is important that drivers have a strong sense of service in their dealings with their customers.
  - The policy is to offer customers a reasonable travel time in an easily accessible way; a reliable and value-for-money public transport system. It is the operators that have the responsibility for service levels and these being adjusted according to demand.
  - Vehicles must always be and feel clean and tidy throughout the journey and on all occasions... In the form of litter, lack of cleaning and vandalism shall be remedied as soon as possible.
  - Co2, emissions. Environmentally-labelled products should be used wherever possible, e.g. when washing.

### Strategic

- **Definition:** A monitoring level focusing on monitoring the operator.
- **Examples from contracts:**
  - Quality work should be structured on the basis of some form of model.
  - Fulfillers undertake, in providing services, to act in accordance with public transport authorities' long-term objectives and goals in order to get more people to use public transport.
  - Develop services in cooperation with the operators.
  - Quality is not an independent activity or thought. It should be integrated into all processes and should not be considered external to these.
  - An environmental management system such as ISO 14001 should be used.
  - The operator needs to follow normal laws and regulations concerning environmental factors.

### Rhetorical

- **Definition:** A visionary level focusing on the mission and visions.
- **Examples from contracts:**
  - It is good to have public transport.
  - High-quality public transport can lead to more satisfied customers.
  - Commitment on the part of the operator.
  - It is important to fulfill the contracted quality goal, both soft and hard quality requirements.
  - It is important to stimulate public transport.
  - The same applies, in order to increase the level of access for the disabled and the elderly.
  - Public transportation forms part of the 'zero vision' endeavour when it comes to road traffic safety.
  - Having satisfactory public transport at the lowest possible cost.
  - Concerning the environment, it is important that operators respect municipal regulations about leaving engines running Stimulate travel by public transport.
  - The overall goal of the contractor is to increase travel by public transport.
  - It is important to have high-quality public transport.

<table>
<thead>
<tr>
<th>Different management levels</th>
<th>Definitions</th>
<th>Examples from contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational</strong></td>
<td>A resource-based level focusing on the prerequisites for the outcome of the offering.</td>
<td>The style of driving. The bus should be driven safely. The buses must be performed in a secure way. Services must be perceived as reliable and safe by travellers. Low floor buses, numbers of seats, and space aboard vehicles and numbers per small river places, onboard climate (heat), cleanliness inside and outside. Punctuality, total bus kilometres, frequency, service intervals, schedule delays, and the waiting environment are important factors. Good driver behaviour is always essential. A customer will not be satisfied straight off... it is important that drivers have a strong sense of service in their dealings with their customers. The policy is to offer customers a reasonable travel time in an easily accessible way; a reliable and value-for-money public transport system. It is the operators that have the responsibility for service levels and these being adjusted according to demand. Vehicles must always be and feel clean and tidy throughout the journey and on all occasions... In the form of litter, lack of cleaning and vandalism shall be remedied as soon as possible. Co2, emissions. Environmentally-labelled products should be used wherever possible, e.g. when washing.</td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td>A monitoring level focusing on monitoring the operator.</td>
<td>Quality work should be structured on the basis of some form of model. Fulfillers undertake, in providing services, to act in accordance with public transport authorities' long-term objectives and goals in order to get more people to use public transport. Develop services in cooperation with the operators. Quality is not an independent activity or thought. It should be integrated into all processes and should not be considered external to these. An environmental management system such as ISO 14001 should be used. The operator needs to follow normal laws and regulations concerning environmental factors.</td>
</tr>
<tr>
<td><strong>Rhetorical</strong></td>
<td>A visionary level focusing on the mission and visions.</td>
<td>It is good to have public transport. High-quality public transport can lead to more satisfied customers. Commitment on the part of the operator. It is important to fulfill the contracted quality goal, both soft and hard quality requirements. It is important to stimulate public transport. The same applies, in order to increase the level of access for the disabled and the elderly. Public transportation forms part of the 'zero vision' endeavour when it comes to road traffic safety. Having satisfactory public transport at the lowest possible cost. Concerning the environment, it is important that operators respect municipal regulations about leaving engines running Stimulate travel by public transport. The overall goal of the contractor is to increase travel by public transport. It is important to have high-quality public transport.</td>
</tr>
</tbody>
</table>

Table 4 Definitions and illustrations of the different management levels.
The results revealed that service quality is a complex matter; especially since there are many parties involved in service provision and also since all interests should be taken into account when contracts are being designed. One of the most critical decisions for managers concerns formulating the ‘ideal’ contract, especially when there is no scope for negotiations or major adjustments, due to legal restrictions (Swedish Code of Statutes 2007:1091; 2007:1092), which in turn has an effect on service quality. The results also make contrasts with previous research that claims that the contractor fails to incorporate service quality from a user perspective (Hensher, 2007). This is indeed not the case in the contracts in this study; instead customer-perceived service quality is frequently brought forward, on all three managerial levels.

It is concluded that all three management levels exist in the contracts, but the scope of these three levels varies among the studied contracts. The analysis indicated that the rhetorical level is not connected to the other two levels; that is, there are no indications in the contracts about how to achieve this level by fulfilling the other two levels. The rhetorical level is an expression of what to achieve; but the analysis shows that there is no obvious definition, description or guidance about how to meet the goals on this level. This is surprising because this level is a visionary level that expresses the visions and missions of a service and should ideally permeate through the entire contract, and should also be the base for the other levels. On the other hand the strategic and the operational levels seem to be connected to each other in a more specific manner. For example, the strategic level provides the frameworks by stating that some sort of management system should be used – such as ISO 14001. This can in turn provide the frameworks for the parties in order to identify the important issues to be focussed on at the operational level, such as using environmentally friendly products whenever possible (for example, when washing the vehicles).

**Paper II – Contracting for service quality - managing the prerequisite for service**

This study was designed to investigate how the prerequisites for services and service quality – in terms of service concepts, processes and resources – are managed through contracts. The study targets situations where service is managed through contracts, in complex constellations of service organisations, where several actors are involved in providing services and where contractors
aim to control the service by contractual means. In many of these organisations, the services are provided by external providers. Thus, there is a need for managing and controlling these services, which includes quality. This is important because the contractors are responsible for and must guarantee a certain quality level to the final user of the service (i.e. the customer; in this case the travellers).

During the analysis of how the prerequisite of the service and quality is managed through contracts, the following three means emerged: (i) legislative category (law and regulations); (ii) standards (major measurements, and documents); and (iii) economical (commercial incentives).

The first means includes references to, for example, environmental laws, worktime regulations, such as Swedish Environmental Code and The Occupational Safety and Health Act. The fact that such general laws are explicitly referred to in the contracts is worth mentioning as they are legally binding. Obviously, the contractors feel a need to stress certain regulations; maybe for preventive reasons.

The second means comprises, for instance, ISO systems, training programmes and technical vehicle specifications. Standards often provide an efficient yet at less formal (but also voluntary and flexible) means of guiding complex operational procedures.

Within the third means there are three common forms of economic incentives: fines, incentives (for example bonuses) and deductions. For example punctuality, the drivers' behaviour and environmental quality issues, are all subject to various financial arrangements. In the contracts there are attempts to link economic incentives to subjective, as well as objective, measures. While the objective measures are often quite straightforward, the subjective measures on the other hand are more problematic; not least from a reliability point of view. Often these measures rely on passengers' judgements that are not always formed in a systematic or even a rational way.

The way service quality is specified, and also the measurements used, appears to be a rather anachronistic way to manage the service. The detailed and exhaustive specifications in the contracts ensure that the contractor receives what they have demanded, in order to meet the quality requirements. However,
this is done in a rigid and 'static' fashion, with no latitude for the service providers to act in a more dynamic and customer-oriented manner. Intangible aspects of the service are being made tangible, in order to be manageable. Instead of striving towards co-creation with the customers (Vargo and Lusch, 2004), the contracts generally focus on objectively measurable issues, which are expressed in the formulation of the economic incentives. The design and writing of the contracts therefore affects the capacity of the provider to act more freely, which in turn affects service quality.

**Paper III – Contract partner relationships: a study of managing relationships in public transport**

This paper proposes that a particular form of relationship occurs in business-to-business settings, where partners are chosen as a result of competitive tendering; i.e. the parties cannot choose the counterparty themselves. The relationship is labelled CPR – contract partner relationship.

The results show that the contract–partner relationship is defined and characterised by low levels of trust, a distance between the parties, formal communication patterns, which are combined with informal interpersonal communication. Furthermore, the boundaries between them are rigid and defined in the contracts. The contribution of the paper is that the contract is the most important mechanism for managing the relationship and thus trust and commitment are of secondary importance. The parties focus more on the content of the contracts rather than on creating mutual understanding and trusting each other (i.e. relational variables). The respondents perceived this as an obstacle when trying to build and manage partnership relationships that are based on commitment and trust, in order to handle day-to-day operations. Such a relationship is well-known to be of importance, as pointed out in previous literature (Dwyer et al., 1987; Ford et al., 1998; Malhotra, and Murnighan, 2002; Laing and Lian 2005; Hunt et al. 2006).

Although the constraints imposed by the contract–partner relationship is unavoidable and even understandable in the beginning of the contractual period, the long term consequence is that the cooperative relationship that is based on commitment and trust might not evolve. Hence, the contracts can hinder the mechanisms that otherwise enables repeated interactions to turn into a gradually evolving relationship (cf. Dwyer et al., 1987; Ford et al., 1998).
This limiting function of the contract makes its initial formulation important. As the contracts cannot be changed while they are under way, the design and writing of the contracts will in effect specify the conditions for the entire contract period.

**Paper IV – To trust or not to trust: formal contracts and the building of long-term relationships**

The aim of the fourth paper was to explore how contracts are used to build and develop long-term relationships in a context where trust cannot be anticipated in advance – i.e. there is a lack of initial trust. In contrast to what Mouzas and Ford (2007) argue (i.e. those contracts are seldom drawn up in new and untested relationships) the contract in this context is drawn up before the relationship starts. The contract’s roles are as follows: (i) to bind the parties together; (ii) to specify the content of the transaction; and (iii) to provide evidence of the nature of the agreement and its enforcement (Roxenhall, 1999; Malhotra and Murnighan, 2002; Roxenhall and Ghauri, 2004; Blomqvist, *et al.*, 2005). On this basis, the contract can be seen as an *a priori* formulation of the relationship, since it is expected to govern the interactions between the parties.

The findings reveal that in the public transport setting, both legislation and the nature of the bidding process makes the contract affect the development of long-term relationships. The contract functions as a way of reducing uncertainty and risk by stating each party’s contribution to the relationship. However, formal contracts tend to have difficulties with the handling of high ambiguity and uncertainty, which tends to exist in long-term situations; this makes trust-based relationships an attractive substitute (Ford *et al.* 1998). Trust is generally built on previous experiences, expectations and a reputation for fair play. In the public transport bidding process, trust cannot be expected in advance due to the fact that the contractor does not know who the other party will be. In fact, even when established trust does exist between parties, the legal requirements concerning the public tendering prevents this trust from being drawn upon. Further, the bidding process and the lack of negotiation opportunities make the resulting relationship asymmetric from the outset. This has negative effects on relational learning and consecutive trust building.

Besides using the contract *per se* as a legal bond to replace trust and reduce uncertainties regarding the outcome of the relationship, other bonds are also
used as substitutes for trust. The contracts studied include different technological, financial and knowledge, information, bonds. These bonds induce termination costs that foster commitment. However, this commitment is not based on trust but on instrumental reasoning. This instrumental reasoning is characteristic of the entire relationship, which creates a formal atmosphere and a preference for bureaucratic routines at the expense of trust building.

**Paper V – Contractual governance for sustainable service**

The aim of the paper was to argue for a contractual governance as the creator of a more dynamic and sustainable contractual relationship. In the paper we argue for a shift from a control-centred perspective to a values-based management perspective in order to become more proactive in the governing process that concerns the inter-organisational relationship. We do this by expanding the concept of performance management.

The result of the study reveals, first of all, that the formal contract has to be supplemented with relational governance (Poppo and Zenger, 2002). Secondly, the control techniques (contracts, budget and multi-performance measurement) for governing and controlling operational activities have to interact, and in order to be able to achieve a more dynamic perspective it is of importance to see the whole picture. Thirdly, in order to develop a dynamic relationship, it will be important to invest resources in the social relationship/interaction with the parties involved in the contractual relationship. Finally, it is also of importance to have a governance process that makes room for a more dynamic and socially-interactive approach to civil society, which might be a way of solving the problem. A way of handling these processes can be to see contractual governance as a part of the performance management tool.

As shown in our empirical results, three control techniques have to interact in a performance management framework; formal contracts, budgets and multi-performance measurement systems. These techniques are for governing and controlling operating activities; but in a sustainable and dynamic concept, it is necessary to have a change perspective (Ferlie *et al.*, 1996) connected to the strategy. In addition to this it is necessary to have a value-based governance and management, and an accountability concept, including sustainability in the form of the triple-bottom-line and stakeholder view concepts. This can be organised
as a regulatory and societal strategy map (Kaplan and Norton, 2004) based on sustainability values.

In order to have a more contextually-constructed performance management our results of the study show that firstly, a traditional contract is a prerequisite and is also required by law (a procurement process regulated by the Procurement Act). Secondly, a multi-performance-management system is necessary. Thirdly, it is important to invest resources in the social relationship/interaction with the parties, and last, a governance process that makes space for a more dynamic and socially interactive approach to the civil society, is a way of solving the problems.

In summary, the results from this paper show that the contract is still very static in its nature that the contract has a controlling role, and that there is a need for other forms of management. Today there are a lot of rules and regulations that affect the business relationship, the service and also the contract; such as the contract and its outcomes; and thereby the management. To govern and manage public service in a value-creating stakeholder network, a developed form of a performance-management tool is necessary. In such a dynamic concept of a performance-management tool, the formal contract has to be supplemented with relational governance. The paper contributes to the understanding and the development of an improved performance-management tool in a public transport service context. The contribution is that contractual governance is a part of the whole performance-management system.

Paper VI – Contractual governance for public service value networks

The sixth paper was designed to explore the links between contractual governance and performance measurement in a value network for public transport, by positing service dominant logic, S-D logic, as an alternative paradigm to the conventional goods dominant logic, G-D logic. The paper addresses two research questions: (i) How does S-D logic influence contractual governance and performance measurement?; and (ii) How do these influences of S-D logic on contractual governance and performance measurement affect governance of public service in a value network?
The study is of relevance because as the service sector continues to grow, an increasing number of businesses are providing services in value networks of companies that are linked together by contracts. Moreover, an increasing number of organisations in both the private and public sector are contracting out various activities while aiming to control those activities by contractual means, because they are responsible to their customers (Dean and Kiu, 2002). There is also a lack of research concerning the question of the relationship between contractual governance and performance measurement (Fisk et al., 1993; Brown et al., 1994; Furrer and Sollberger, 2007).

The results of the studies reveal that the current contracts and performance measurements are more focused on operand resources (natural resources) and physical output, rather than on operant resources (knowledge and skills) when providing benefits or creating value, and still remains essentially goods oriented. Paradoxically the contractor explicitly aspired to a service orientation and strives for a customer-oriented public service system; thereby implying interest in the operant resources. In the contracts it is obvious that the controllable and measurable aspects are prioritised at the expense of operant resources where such knowledge and skills are necessary to promote customer orientation values. This is a problem since operant resources are the most important ones in an S-D perspective (Vargo and Lusch, 2008). The studied contracts are hence rather static and can be said to be production orientated, despite the claims of other ambitions.

In the article it is suggested that the problem might be solved if the contractor adopts a management approach that is based on values rather than rules. This would allow the service providers to continuously develop sustainable public services that are based on value-in-use. However, such a management approach requires substantial investments in social equity and in the relationships – both those between the contractor and the service provider, and those with users of the service. When developing a service business that is based on S-D logic, it is therefore important to invest resources in accordance with a balanced set of social, environmental and economic perspectives. The findings reveal that the present contracts do not facilitate such an approach. What is needed here is a more dynamic approach to be used in order to define, design and deliver those solutions that focus on operant resources. Another conclusion is that the S-D perspective explicates the possibilities and restrictions of using contracts as a mechanism for managing services. Lusch and Vargo, (2006) argue S-D logic as
an open source. This study contributes to this discussion by linking governance aspects to SD-logic.
CHAPTER 5

Discussion and contributions

The aim of this thesis is to enhance knowledge about using contracts in order to manage services in business-to-business relations. The contributions are made to service research and more specifically for managing service quality, business relationships and contractual governance. This chapter concludes the thesis by discussing the research contributions and how the separate results and contributions from the papers together fulfill the aim of the thesis, which is inspired by reflexive methodology. It is argued that managing services through contracts is multi-focal with questions regarding service and quality, business relations and the contractual governance. Hence, the contributions of this thesis can be summarised in the following way: (i) an extended understanding how contracts are used to manage prerequisites for service quality for the parties involved; (ii) an extended understanding of how contracts are used to manage business-to-business service relations; and (iii) an extended understanding of contracts’ role as a governance mechanism in services. Each of these contributions are discussed in the following text.

Previous research has not empirically studied formal contracts in such a comprehensive way as I have done in this study of public transport services. Since they are the same contracts that shape prerequisites of the service, service quality and the business relationship, as well as the governing structure of the entire network, it is essential not to fragmentise the understanding of contracts. This chapter therefore concludes with a final reflection of how contracts are used to manage services.

Managing the prerequisites for services and service quality

The first contribution is an extended understanding of how contracts are used to manage prerequisites for services in order to create service quality for the parties involved. Previous research in the service sector and especially in service quality has mainly focused on customers’ perceived quality (see, for example, Schneider and White, 2004; Grönroos, 2006; Perez et al. 2007). Hence, the customers’ experiences after the service has been consumed are the primary focus (see, for example, Schneider and White, 2004). Although service quality
and the measurements of service quality have been discussed and described in previous research (see, for example, Grönroos, 1984; Parasuraman et al. 1985; Parasuraman et al. 1988; Zeithaml et al. 1990), it has not to a large extent been investigated how contracts are used in managing quality services (Rönnbäck, 2010). My papers focus on service quality before the service is consumed. As the results show, the contracts specify the prerequisite for the service in the form of the service concept (the service offering that is needed in order to fulfil the customer needs), the service process (i.e. the involved actors’ intended activities and interactions that are needed for the service to come about) and the resource constellation in a service system, to make the service process possible and thus realise the service concept (paper II).

It was found that the concept of service quality is brought forward on three interdependent managerial levels; from a detailed operational level, to a systemic oriented strategic level to a visionary rhetorical level (paper I) – each specifying the prerequisite for the services. Even though it is concluded that the levels are interdependent it is indicated that the rhetorical level is loosely connected to the other two levels. Furthermore, to manage the prerequisite for service and thereby the service quality, the contracts rely on three identified means: laws and regulations, standards and measurements and economic incentives (paper II).

In these papers (I and II) is shows that the quality factors are comprehensive and specified in great detail in order to obtain a service of high quality to the end user of the service. Service quality requires a fit between the offered services and the customers’ needs. In addition, service quality also requires the actors to follow the intended process and the service system must support the actual activities and interactions in service processes (Edvardsson, 1997). Using explicit formal contracts is in this respect a way to safeguard (Heide and John, 1988) this conformance of the service design. In order to regulate the intended service quality, the contracts are therefore thorough and firmly precise in order to ensure a service of high quality to the end user (see papers I and II). However, this detailed specification of the contents is done in a rigid and static fashion with no opportunity for the service providers to act in a more dynamic and customer-oriented manner. The contract is focused on controllable and measurable resources, structures, activities and routines, and monitors the service on rules that are measureable in a transactional manner, rather than on customer perceptions and values (papers I, II, V and VI).
On a theoretical level there seems to be tension between, on the one hand, to secure service quality and, on the other hand, to develop service quality. As the contracts are static and rigid due to assurance of the service quality that is expected, they restrict the flexibility and hence the possibility to improve and refine the service as such. Thus, the way service quality is defined and implemented in the studied contracts appears to be a rather old-fashioned way to manage the service.

Within the service dominant logic perspective, S-D logic, (Vargo and Lusch, 2004; 2008) the customer role has been extended to not only having a receiving and passive role, but to becoming an active co-creator of value that implies the importance of the consideration of the customer-value creating process. However, it can be concluded that managing the prerequisite of service often has focused on the operand resources such as equipment, information, structure and routines rather than on the operant resources such as employees, customers’ and other actors and their knowledge, skills motivation, norms and values. It is obvious in the studied contracts that the room for co-creation is highly limited due to the rigid form of the contracts and the financial constraints (see paper I and papers II, but also paper VI). Therefore, instead of emphasizing co-creation with the customers (Vargo and Lusch, 2004; 2008), the contracts generally focus on the resources, such as their attributes and objectively measurable aspects of the services.

**Managing in business-to-business services relations**

The second contributions concern an extended understanding of how contracts are used to manage services in a business-to-business scenario. In previous research it is stated that there are several reasons why contracts are used in managing business-to-business relationships (Macaulay, 1963a; Williamson, 1975; Macneil, 1978a, 1978b; Roxenhall, 1999; Roxenhall and Ghauri, 2004). Among other things it reduces uncertainty and risk by stating each party’s contribution to the relationship (Heide, 1994; Malhotra and Murnighan 2002). The contracts’ roles in the relations between the contractor and the service provider are to bind parties together – partly by specifying the service concept – the service processes and the service system with its resources, structures, etc., but also by clarifying financial boundaries and relevant laws and regulations. At the same time the contracts content evidence of the content of the contract including enforcement.
As shown in my studies, the contracts managing the relationships between the parties are drawn up before the relationship starts (see, papers III, IV, V and VI). In comparison to previous research where contracts are seldom used in new and untested relationships (see, for example, Mouzas and Ford, 2007), this thesis contributes to a nuanced picture of the contracts’ roles in managing business relations in a service context. As previously stated, one important aspect found is that the contracts are very detailed when it comes to regulating obligations, activities and the service at hand. Furthermore, it has shown that a formally written contract has a significant influence and restricting effect on what happens in terms of day-to-day business interactions, as it often specifies even the mundane aspects of the relationship (papers III and IV). This is problematic when it comes to managing service quality as argued above, but also when it comes to managing business-to-business relationships. In this respect the detailed contents and rigidity of the contracts bring forward an inflexible and asymmetric relationship, where the parties are restricted in their activities (papers III and IV). As in the case of limited possibilities to develop service quality, contracts also restrict the ability to improve business relationships.

In the present study, this stifling effect is reinforced by the contracts that are used in the daily service provision (papers III and IV). This frequent use of contracts is seldom noted in previous contract research (see, for example, Macaulay, 1963a, 1963b; Poppo and Zenger, 2002; Roxenhall and Ghauri, 2004).

In addition to problems regarding that the fact that contracts are designed before the relationship starts, is the fact that the parties are prevented from choosing the counterparty themselves. The contract even initiates the relationship without the contract there will be no relationship between the parties. Hence, the relationship is primarily formed by the contract rather than by previous interaction and a trust-building process (papers III and IV). If the relationship had been formed due to the development of a relationship in a traditional setting, it can be seen as an investment in which the parties commit resources to each other in order to receive benefits in the future (i.e. they incur costs in the short-term to receive gains in the long-term) (Ford et al. 1996; Turnbull et al. 1996). Relationships in traditional business-to-business relations will only continue to exist if the parties involved reap rewards that exceed the costs incurred by those relationships. If this is not the case, relationships will be
dissolved or at least re-evaluated and/or transformed in the long-term (Dwyer et al. 1987). Besides these, trust and commitment are vital – issues according to previous research.

However, in the studied business relations these issues are of secondary meaning and the content in contracts constitute the foundation of this relationship (paper III). Hence, the contracts here become a ‘substitute’ for trust and commitment (papers III and paper IV); instead of supporting the development of trust and commitment (papers III, IV and VI). This is a problem as contracts, according to previous research, should be complementary with some sort of relationship management, such as relational norms where trust is one example (Seshadri and Mishra, 2004; Brown et al. 2006). However, as noted above in the studied context, trust is subsided in favour for formal contracts.

**Using contracts to govern services**

The last area of contributions concerns the use of contracts in governing services – that is, how contracts become part of a wider conception of governance (i.e. inter-relating of the content of the contract to the governance structure). Governance refers to, as previously stated; the formal and informal rules of exchange between two or more business partners (see, for example, Wathne and Heide, 2004; Griffith and Myers, 2005). Previous research concerning governance has to a large extent focused on two forms of coordination – hierarchy and markets; and closely related concepts that have been discussed, compared and developed into intermediate forms in a number of studies (see, for example, Williamson, 1975; Ouchi, 1979, 1980; Heide 1994; Rindfleish and Heide, 1997; Håkansson and Lind, 2004). Although, it is important to note that less attention has been paid to how the different forms are combined.

The present thesis has revealed that contracts play an important role in overall service governance (see paper V and VI). However, the rigidity of the contracts indicates a potential conflict with the ambitions of service-logic governance. Such a governance should be characterised by value creation and provision of a service that is focused on meeting the customer’s desire for ‘value-in-use’ (paper V) as well as social values, shared norms and understandings (paper V and VI) instead of ‘command and control’ (Edvardsson and Enquist, 2009).
The contracts emphasise regulation and control while relational variables and employee-service orientation are not paid much attention in the contracts (paper III, IV, and VI).

The results from the papers discussed so far (papers V and VI) indicate this conflict that is present in the public transport sector. The contractors aspired to a service orientation, but each was forced by the business logic of the present public transport arrangements to remain essentially goods oriented. The contracts have rigid and excessive specifications with no allowance and few possibilities for the service providers to act in a more customer-oriented manner. Service quality mainly focuses on operand issues and control (paper VI but also papers I and II) instead of focussing on people management, management of service capacity and service technology in service operations (paper VI).

However, it is also possible to include contracts in a value focused service dominant governance regime (see papers V and VI). However, this requires that the contracts are not considered in isolation, but together with other parts of the governing structure such as key-performance indicators and other common values. In the model that is suggested in papers VI, such an integrated approach to contractual governance is elaborated on. In effect the model reformulated the contracts’ roles from being a static abbreviator to a dyadic market-based relationship, into becoming a dynamic force or tool for developing and sustaining a value-creating and value-driven collaborative network (Ouchi, 1979; Håkansson and Lind, 2004).

**Final reflections**

In the beginning of this thesis a number of challenges were put forward, such as, uncertainty, limited financial resources, individual differences, when using contracts to manage services. The contracts try to cover all these issues. The balance between financial constraints and to accomplish good service is something that many companies put forward when managing services. As contractors and service providers have different missions and the fact that the foundations of the organisations are public and private, their values-base are essentially different. The challenge, thus, is also to establish a common values-base (Edvardsson and Enquist, 2009). The first four papers give examples of contracts designed solely to emphasise control based on a static GD-logic. The
rigid and detailed specifications in the contracts ensured that the contractors received what they requested in a static fashion. In that sense it can be argued that this use of contracts expresses as a transactional view (Williamson, 1975). Such contracts are largely concerned with the securing of resources, with a focus on capacity (Ramirez and Wallin, 2000). The purpose of these types of contracts is to accomplish effectiveness, but while doing so they, unfortunately, also dichotomise the business relations between the parties (Enquist, 1999). Instead of accomplishing the thought for win-win solutions these contracts create win-lose solutions which in the long run lead to situations where both parties loose. A consequence of the fact that both parties loose, is that the perceived customer service quality decrease.

The current thesis found that the contracts restrict the relational variables (trust and social norms) or at least hinders them from stimulating relational bonds (see paper VI, IV). This can result in the contracts limiting or restricting efficiency in terms of both operant and operand resources. The contracts emphasise regulation and control, and focus on the operand resources while relational variables and employee service orientations are not paid much attention. There is even a tendency that contracts ‘operandisise’ operant resources.

In chapter 1 the actors and the different relationships as well as the challenges to be managed were introduced. Essentially I have tried to capture this in figure 1. The thesis has given at hand a need to broaden the understanding of the use of contracts and their role in managing services. By adding the values circle in figure 4, I have tried to put greater emphasis on mechanisms of relations and values (see paper V and VI). The inner circle corresponds to the transactional dimension. An important element of figure 4 is also that it is not a matter of choosing either transaction or relation. Instead I argue for a combination of both when using contracts to manage services.
The contract management model

One of the most difficult challenges identified in this thesis is to dissolve the accustomed dichotomy between common good and customer satisfaction and efficiency (Enquist, 2007). Paper VI shows how the perspective of SD-logic offers a way out. Instead of seeing the public transport business as a value chain it is more fruitful to think of it as a value-network (Enquist and Johnson, 2011). The image of a value-network makes clear that the public transport business essentially is about co-operation and co-creation from a SD-logic point of view (Lusch and Vargo, 2009). Seeing the business network from a SD-logic perspective highlights the relation between the parties. Then there will be less focus on legalities and more on reaching a mutual values-base and common understanding of the meaning of the relationship.

The dynamic view sought for is at variance with the contemporary transactional view. By broadening the perspectives, including relational views, it is possible to stimulate win-win situations while also creating societal values, social values and effective use of resources. These will lead to the full commitment to the notion of ‘value-in-use’. In effect the contracts’ roles are reformulated which includes not just the rhetoric level but also the strategic and the operational level. Using contracts to manage service requires a multi focus on managing the prerequisite for service quality, business relations as well as the entire value-creating network and making the parts work as entities as well as a whole.
Future research

After studying the contents and use of contracts to manage services, four main areas for further research have emerged. Firstly, since I have only studied one business context further research could continue by studying other business-to-business settings, where contracts play an important role in managing service. Such contexts might be resorts, franchise service systems or logistic services. Although, I believe that the results are applicable in other business contexts, both public and private, there is a need for more research in order to further develop an understanding of how to govern, manage relationships and service quality, and thus other important service-management issues, such as sustainability (Johnson, 2007).

Secondly, previous research has concluded that most of the research that is published is done within the researchers’ national context (see, Svensson et al. 2008). Further research could therefore focus on an international scope since many service providers face the challenges when managing across borders; e.g. national, cultural and geographical. By comparing how the same companies manage services in different national, cultural and geographical settings – often with different laws, regulations, norms and expectations from the actors involved – important contributions to both contract and service research will be provided. A related topic is to study the best practices in different countries in different industries, in the form of a comparative analysis.

Thirdly, future research could focus on obtaining a more detailed understanding by comparing different forms and designs of contracts as well as the outcomes; for example, transactional and relational contracts, various categories of performance and outcome based contracts; including performance measurements. Previous research has pointed out the need for more empirical research on contracts in order to understand their form and nature, since previous research has not to a large extent used authentic contracts (Furlotti, 2007, Mouzas and Blois, 2008), in order to arrive at a more solid empirical ground for the development of theoretical frameworks in the area of management services that use contracts. Another point that can be concluded from previous research is that the focus has been on manufacturing companies (see, for example, Lacoste, 2008) and not to a large extent on service organisations. Therefore, it is suggested that future research could focus on contracts in service contexts (see, for example, Brown et al. 2006), especially
from the perspective of resource integration and value co-creation put forward by S-D logic.

Finally, I suggest that further research focuses on the different roles and effects that contracts have in and on service systems; which often relies on multiple service providers and different forms and designs of contract based relations. The notion of a service system has been put forward through S-D logic and service science in the past decades. Vargo and Lusch (2004) did not use the term ‘service system’ when they launched S-D logic as they preferred the term “vertical marketing system”. Later they have made the explicit statement that S-D logic applies to any service system (Vargo and Lusch, 2008:5). Earlier, cooperation-providing companies, where contracts play a key role have been used to describe what is here referred to as service systems (Normann and Ramírez, 1993; Normann, 2001). Recently there has been a broad acceptance of the definition of a service system suggested by Spohrer et al. (2007:72), who described service systems as: “….value co-creation configurations of people, technology, value propositions connecting internal and external service systems, and shared information (such as language, laws, measures, and methods)”.

Contracts are most often part of service systems and play a key role in managing and developing these systems. How does design and use of contracts impact resource integration and value co-creation in various service systems? What are the advantages and disadvantages when it comes to innovations in service systems?
References


Alvesson, M. (2011) Interpreting Interviews. SAGE Publications India Pvt Ltd, New Delhi, India


88


EU Article 288 - Treaty on the Functioning of the European Union.


89


Koll Främåt, Huvudrapport VV publication 2008:33.


Using Contracts to Manage Services

Contracts play a key role in many business to business relationships. Service organisations are no exception. Despite a growing interest of services and how services are managed, research on how to use contracts to manage services has been surprisingly sparse in service research. The overall aim of this thesis is to contribute to a deeper understanding of using contracts to manage services in business-to-business relationships. Contract theories together with concepts from service research are used to enrich and understand how contracts are used to manage services and thus make contributions to service research. The thesis will give an empirically grounded understanding of managing services through contracts.

The three main contributions of this dissertation are; firstly, an extended understanding of how contracts are used to manage the prerequisites for service quality for the parties involved. It was found that the concept service quality is brought forward on three interdependent managerial levels; from a detailed operational level, to a systemic oriented strategic level, and also a visionary rhetorical level each specifying the prerequisite for the services. To manage the prerequisites, the contracts rely on three identified means; laws and regulations, standards and measurements and economical incentives. Secondly, the detailed contents and rigidity of the contracts bring forward an inflexible and asymmetric relationship, where the parties are restricted in their activities. Here the contracts become a ‘substitute’ for trust and commitment instead of supporting the development of trust and commitment. Finally, the thesis deepen the understanding of the role of contracts in governing services, from being a static abbreviator to a dyadic market based relationship, to becoming a dynamic tool for developing and sustaining a value creating and value driven collaborative network.