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Service thinking = Service action?

Service thinking in a public transport network surrounding

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Abstract

Service thinking and the transition from a product-logic-perspective to a process-perspective are catchwords in current management research (e.g. Grönroos 2000, Kowalskowski 2006, Söderström 2003, Stremersch et al. 2001, Oliva & Kallenberg 2003, Lele 1986) While the product-logic is based on value distribution via the transition of a ready-made product or service, the service-process logic focuses on value-in-use that is created together with the customer. (Grönroos 2007) In the current service management view, value creation is regarded as the result of exchange with network partners in the perception of the customer (Normann & Ramirez 1998). This is why service thinking includes that a company seeks for co-operation with suppliers and customers through activated relationships, networks (Syson & Perks 2004).

Coming from a product-delivery-perspective on doing business can challenge a service provider to adapt to a service-process view. Legally and historically founded prerequisites, as well as for example corporate culture and financial resources, can be obstacles on the way to a service-process business approach. The purpose of this study is to gain insight into how these obstacles influence the possibility of a service operator to adapt to the service logic with customer- and supplier-interaction.

To gain deeper insight into the service thinking of a company in a network environment, a qualitative single case study on the public transport organisation “County Transport” has been used. Based on three personal interviews and literature study, this case explores how a public service organisation deals with its service mission. It also identifies and describes hinders on the way to a service logic approach.

The organisation of County Transport was found to be steered a lot on the basis of numbers and material parts of the service offering such as the bus itself and different support tools on the busses. County Transport follows the rules of the Public Procurement Act which gives the public transport operation a contract framework of a tendering based choice of operators for the time of 8-10 years. The relationship between County Transport and its operator “The Operator” can be seen as comparatively secure relationship without an introduction phase in which trust and adaptations to each other can be developed. With this quite formal relationship under economic pressure it was found that the cooperation between The PTA of County Transport and The Operator was worse than desired. Especially the influence of the brut contract on tender basis seemed to be hindering a good cooperation in a long-term perspective. It might be that a steering by costs and numbers on one side does not help to create a value-creating relationship based on adaptations and soft factors on the other side.
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1. Introduction

1.1 Service logic demands value creation in networks

Service thinking and the transition from a product-logic-perspective to a process-perspective are catchwords in current management research (e.g. Grönroos 2000, Kowalksowski 2006, Söderström 2003, Stremersch et al. 2001, Oliva & Kallenberg 2003, Lele 1986). The shift from a perspective of ready-made value delivery to a perspective of value co-production in service processes is an issue for most industries and branches. While the product-logic is based on the distribution of value via the transition of a ready-made product or service, the service-process logic focuses on value-in-use that is created together with the customer. This happens through a relationship and the interaction of suppliers, service provider and customer (Grönroos 2007).

In the manufacturing sector, to give an example, the interest in service thinking is created by the manufacturers’ engagement in finding differentiators such as functional services to gain advantages in a global competition (Parasuraman 1998). For most sectors, service thinking reflects a need for a customer focus that is based on the integration of the customer into cooperation on value creation (John 2003).

In a service context there customers are participating in the value creation process and firms are taking a stakeholder view on their way of doing business, the interaction and cooperation between actors becomes an important variable for the service creation process. This is why service thinking includes that a company seeks for co-operation with its suppliers and customers in activated relationships that is networks (Syson & Perks 2004). The interaction between network actors is mutual and builds on exchange of resources, information and knowledge between network members, but also social exchange (Söderström 2003). This exchange for value creation includes shared risk and shared profit, as suppliers and service providers are expected to create value for a common customer (Normann & Ramirez 1998). The value-in-use achieved by this cooperation is what the customer defines as his perceived benefit of the service process he participated in (Brännström & Elfström 2002).

To put this idea of value creation into action might create a challenge for a market actor, depending on the market and the background of the organization in focus. Legally and historically founded prerequisites as well as for example corporate culture and financial resources, represent obstacles on the way to a service-process business approach. The purpose of this study is to gain insight on how these obstacles influence the possibility of an organization to adapt to a service perspective.

Another interest in this thesis was to see, in how it influences a service operation if a service is organized by one firm and the actual customer meeting is performed by another firm. Constellations where the organisation of a service and the actual service performance are split between two companies can be found in different public service areas. Other examples are communication
industries where mobile phone manufacturers work with net providers or call centres in any industry that meet customer for a service provider or manufacturer. This constellation can also be found in public transportation, where a private bus operator takes over the driving of busses and the customer meeting while the service offer is planned and controlled by a public service organ.

Public Transportation serves even as an example for a service provider with a background of outcome delivery. The public transportation in the Swedish county “The County” tries to make its way from its former product approach to a value co-production perspective with service thinking and customer focus. On the example of County Transport it will be shown what difficulties there are to build up long-term value creating relationships with suppliers in a business environment shaped by legal requirements and the organizational split between service conceptualization and customer meeting.

1.2 Research purpose

The aim of this paper is to get insight into the public transport organization of a representative case (The County) and to explore how public transport deals with its service commission:

1.3 Background on the organization of public transportation

The already mentioned legal background for public transport is given by the Public Procurement Act (LOU) and the Commission of Inquiry’s reports (SOU). By these legal frameworks, the public transportation in Sweden is legally organized in that way that the responsibility for the public transport organization lays at each single county. In every county there is therefore a so called Public Transport Authority (PTA), put in office by the County Council and the County Administration. These regional institutions are also in charge of the public transport’s financing. That has as a result that the financing of the public transport happens in competition with other regionally organized services such as healthcare, care for the elderly and similar.

A PTA organizes the transportation but the actual service is run by private operators. A tendering decides that only the operator with the lowest bid can get a contract to perform the transportation service in a county. In the county of this essay’s case (The County), the contract form is a gross contract running over 8-10 years. A list of specific requirements given by The PTA regulates the set-up of the service performance for the operator. This has the effect that the supplier-customer relationship in public transportation is more difficult than and different from other business relationships. County Transport does not offer its service to the customer, but offers the service via an operator. A problem found in the context of County Transport and its operators is that they cannot determine whose customers the travellers really are.
Further, the contract form of a tender pushes operators to their efficiency limits as they have to submit a tender with the cheapest possible price. While the PTA has to deal with an operator that was not actively chosen and might not be the best, the relationship between the operator and the PTA is based on the contract only. The relationship is found to be regulated highly from the PTA’s side in a gross contract situation. That does hardly give space for improvement intentions and rewarding of commitment within the business relationship (Johansson 2001, Stif).

1.4 Structure

To generate an understanding of the theoretical background, the theory part will go into service definitions and the concept of service thinking as well as it will explain relationship and value-creation topics.

A qualitative research approach with one explanation interview with a doctoral student, two in-depth interviews with the PTA of the research object County Transport and the CEO of County Transport’s biggest operator “The Operator” was chosen as a research method in this case study. The methodology will be presented in the second part.

Empirical and theoretical material will be discussed in form of an empirical analysis. The presentation of empiric material and its immediate analysis and discussion prevent repetitions and allow accessing the material in depth. After this final conclusions will be drawn in part 4.
2. Method

2.1 Choice of method

In this essay the public transport organization of a Swedish county will be observed as an example for an organization that tries to become customer focused and service thinking. For getting more insight into soft factors, service thinking of public transport organizations, a qualitative research method was a natural choice. It was wanted to get deeper insight into a social science context where behaviours, perceptions, values and attitudes play a main role in the investigation (Johns & Lee-Ross 1998).

2.1.1 Qualitative research approach

Qualitative research enables a communication and response between the researcher and the respondent as the aim is to “go under the skin” of the research object (Jacobsen 2002). In interactive processes, the qualitative research design gives the possibility to react flexibly when it comes to data collection and research process (Christensen 2001). To gather as broad and nuanced information as possible on the research topic, an open approach for the research in a complex field was chosen (Jacobsen 2002).

The qualitative research design is demanding a high input of resources and therefore limits the number of research object to a few (Jacobsen 2002, Johns & Lee-Ross 1998). Qualitative research favours a high number of variables examined before a high number of entities. The complexity of the gained data is possibly high, so it can become difficult for the researcher to keep an overview and stay in line with the actual research purpose (Jacobsen 2002). Further there might exist a risk for misunderstandings that effects value and results from data evaluation (John & Lee- Ross 1998).

As a qualitative research is usually quite intensive depending on the high use resources in data collection and data analysis, a choice for few research entities has to be made. To be able to describe the specific attributes of the complex research object of a network in Public Transportation, this thesis focuses on one entity only, County Transport (Backman 1998, Jacobsen 2002).

2.1.2 Choice of case-study design

Yin (2003) describes a case study as a method allowing intensive research including the holistic and meaningful characteristics of the research object, for example organizational processes (Bryman 2002). This is why a case study with the use of open face-to-face interviews and document study was chosen for this thesis. It emphasizes on depth and contents rather than on statistical generalization. This thesis is a single case study because of the possibility to examine more facets within one case. The choice of one case only limits though
the possibilities to generalize results as there is no possibility to compare the results within different organisations (Wiedersheim-Paul & Eriksson 1991).

Wiedersheim-Paul and Eriksson (1991) suggest that it is mostly advisable to consider cases that the researcher can get access to. This is the reason why County Transport, as a typical example for a Public Transport Authority in Sweden, was chosen as a case for this study. The first contact to County Transports CEO “The PTA” and “Doctoral Student” could be facilitated on basis of the contact with the Service Research Centre CTF at Karlstads University.

2.2 Data collection

In this thesis both, primary and secondary material were used. Primary data were collected by two interviews, whilst secondary data in this thesis consists of information material provided by County Transport, business administration literature, articles and books, as well as of documents from public transport sector.

2.2.1 Primary data

The primary material, as it is most common for the research form case study, are interviews (Backman 1998). Interviews, especially open interviews, are helpful for holistic understanding. They allow insight in aspects of the research object that were not been thought of beforehand. Open interviews enable to find out about intentions and opinions of a single person and its interpretations of problem aspects (Jacobsen 2002). Authenticity and spontaneity are more likely to be achieved with open interviews than with pre-designed questionnaires or closed questions (Backman 1998). In an open interview

“the interview is allowed to proceed at its own pace, in a conversational style. Thus the interviewee is guided, but also permitted and even encouraged by the interviewer to make detours” (Johns & Lee-Ross 1998, p. 125)

The researchers were interested in the interviewees’ opinions and perceptions. Because of the small sample of interview partners, it was decided that this form of data collection was the most suitable, even though this data collection method is usually criticized to be time consuming and resource demanding. This bases on the fact that the amount of collected data being very high and unstructured (Jacobsen 2002). The use of an interview guideline makes sure that all topics of interest for the researcher are covered during the interview if the interview partner does not cover all aspects by itself already. An open interview also enables a natural flow in the conversation. Topics can come up in their logic order and the interview object has the opportunity to explain freely what he considers important in depth or include not expected information (Jacobsen 2002, Darmer 1995).
Jacobsen (2002) explains that open interviews are easiest to carry out in a face-to-face situation. Personal attendance creates a more confidential atmosphere in which it might be easier to talk in a natural way. It is also easier to sense from mimics and gesticulations where it could help to use following questions to focus on a certain topic in depth. To see where the interview object feels uncomfortable allows the interviewer to stop asking into that direction and reduces thereby the danger of the interviewed person closing up. The face-to-face interview is also helping to receive honest answers. Jacobsen (2002) as well as Johns & Lee-Ross (1998) suggest that it is easier for an interviewed person to lie when interviewed on telephone.

The disadvantage with performing interviews face-to-face is the so called interview effect. It says that the researcher’s presence, gesticulations and mimics can affect the respondent. To reduce the reliability deficit, a trained interviewer is needed. In this interview the rules for interviewing behaviour were followed. That includes the use of introduction phrases, introduction of the interviewees about the purpose of the interview and the topic of the thesis. The interviewer used confirmative phrases that suggest understanding, tried to be friendly and kept a topic-related interest.

To perform an interview in an atmosphere that is natural and comfortable for the interview partner is necessary to exclude the context effect (Jacobsen 2002). The interviews for this thesis were performed in the interview partners’ natural atmosphere, an undisturbed office.

Another choice made was to record the interviews. The advantages of recording an interview are that the natural flow of the conversation does not get disturbed by making notes of an interviewer. The recorded interview can be replayed, which reduces the risk of unconscious selection of information through the interviewer and gives the possibility to receive direct quotations from the interview. The interview partners did not seem to get nervous or distracted by the mp3 recorder used, probably because of their age and professional experience where they are used to meet foreign people and stand for their company in their every-day-life. It was also made sure that there would be no technical disturbances through battery changes or similar. The length of the interviews was within the recommended length of up to one to one and a half hour (Jacobsen 2002).

The interview partners were chosen after the criteria of being the person with sufficient and right information and after their accessibility. The first interview was an open explanation interview with “Doctoral Student”, Ph. D. student at County Transport. This interview was carried out to gain a better access to and understanding of the research field. The interview helped to explain how public transport works in Sweden and how Country Transport is organised. Further Doctoral Student introduced the Swedish Thesaurus for Public Transport to prevent possible misunderstandings in the interview with County Transports PTA.

The second, main, interview with the “The PTA” of County Transport was an open interview with the same interview guideline.
Within the process of analysing the interview material, it was found that clarification on a few points was necessary. For this reason, a shorter email questionnaire was designed and sent to The PTA. Likewise in the interview, the questions in the email were open. It was seen as an advantage that The PTA gains time to reflect on what to answer to each question as it was a written method of interviewing. One could argue that it asks for more work to fill in an open questionnaire written than answering it verbally, but The PTA answered within very short time and in the desired coverage.

2.2.2 Secondary data

The secondary data used consists of articles, research reports and business management literature on the topics service management, service quality, business to business management, relationships and value creation as well as on the public transport in Sweden.

Further secondary material analysed are materials received from the examined Public Transport Organisation “County Transport”. County Transports PTA (The PTA) provided County Transports brochures and papers showing strategy and mission statement, contracting procedures, presentation of research at County Transport and similar: “Transport Provision Plan 2006-2010” (Trafikförsörjningsplan 2006-2010), "Administrative Regulation for Transport Purchasing" (Administrativa Föreskrifter Trafikupphandling" and "Travellers, Research, Results" (Resande, research, resultat - en presentation av project R3). As a supplement, the annual report for County Transport from 2005 and the Sltf-brochure “Buss 2000 – PTA requirements on busses in regular traffic” (Buss 2000- Huvudmannakrav på bussar I linjetrafik) were downloaded from County Transports homepage.

Another secondary source is an interview with County Transports’ most important supplier for bus transportation “The Operator”, which was carried out and made available by Carolina Camén and Patrik Gottfridsson (researchers at CTF Karlstad). This interview was done in the same time period as the primary interviews on overlapping research topics regarding another Public Transport Organisation, comparable to County Transport. From the interview with The Operator only those parts are taken into account, which discuss public transport and its proceedings in general.

2.2.3 Data analysis

The analysis of the recorded interview requires organised and structured working. The interviews were listened to many times to find complementary, comparable or contrasting sequences. Those sequences were translated to work as an illustration and to get a holistic view on County Transport. Special care was taken with the interview of The Operator; because of this interview only those parts could be taken that were referring to public transportation in general or to County Transport and not to other organisations.
To prepare the analysis of the data, theme-related groups and groups of agreeing or contrasting statements were built. On basis of these groupings it was possible to draw conclusions in reference with the theoretical insights (Miles & Huberman 1994, Christensen 2001).

To tie empirical findings to the theory via the built constructs, it was chosen to combine the presentation of empiric material with the analysis of those results in one part instead of two parts. The analysis in form of a discussion reduces repetitions and makes it easier for the reader to follow the authors’ thoughts.

2.3 **Credibility discussion**

To find out about the credibility of the analysis results, one has to discuss the reliability and validity of the qualitative research results to make sure that the collected data have been treated critically. The credibility of a thesis helps to give evidence of the accuracy and carefulness, that the data have been treated with, until which degree the collected data can be trusted and how far the results drawn can be generalised, how far they represent the real world.

“Validity and reliability indicate the materials quality. Validity is the worth of a research. It shows the usefulness and relevance of the data received. Reliability stands for the trustworthiness, stability and homogeneity.” (Kylén 2004, p.140; translation by author)

Reliability refers thereby to the consistency of the material collected, to how stable and homogenous the results of the examination are, whilst validity reflects the relevance and the usefulness of the collected data (Kylén 2004, Christensen 2001).

Validity means that a researcher really measures what was supposed to be measured. The right use of measurement tools as well as the relevance and completeness of data check are verified by validity. Validity tells if the results of an examination really reflect the real-life situation (Silverman 2001).

Validity is comparably high in an open research design. An informal method, that has a looser structure, can give higher validity then the research designs that are structured in a fixed way. A highly formalised concept reduces the possibility to adapt the data-collection to the actual situation (Kylén 2004). To increase the security that the data collected really reflects reality, the interview with Doctoral Student was carried out. This interview is supposed to give a more independent view on the problematic. The additional material as brochures gives a more holistic picture on County Transports business as well. A factor that is affecting validity negatively is that the quotations from the interviews were translated by the author. To keep the loss of content as small as possible, the text was translated as close to the Swedish original as possible on costs of text flow and grammatical correctness of the translation.

External reliability refers to the fact, that identical or at least similar data should be collected in case the researcher repeated their investigation in the same way.
The stability of the results of the interviews on County Transport has been increased by material studies. But there is no guarantee for being able to perform an identical repetition because of the impossibility to freeze a social environment that can be affected by different factor every day (Bryman 2002).

Internal reliability in qualitative research refers to the researcher as a tool for the investigation. Qualitative data are generated by interaction depending on time and space, so it might not be possible to gain the same information within an interview in another occasion. So one could say that neither the same researcher, which changes its background and knowledge already during the performance of an interview, nor another interviewer could actually perform an identical interview again (Christensen 2001). Different researcher also may receive different data or interpret the received data in a different way. Because reliability is influenced by circumstances of the data collection, the guidelines for interviewing were followed and disturbances during the interview were held as low as possible.

The criterion on external reliability shows how far the results of a study can be generalised to other social environments.

“*The trustworthiness of concrete tasks can be higher than in vague and general descriptions. But it does not follow that a truthful description of an event is typical and reliable. The risk is that the concrete is unique but gets presented as typical.*” (Kylén 2004, p.143; translation by author)

This case study is an in-depth study of only one organisation and therefore the external reliability has to be ranked quite low. But the results from other researchers are similar so that one could say that the study is not typical or representative but at least comparatively transferable to other organisations because of the studies´ high internal validity (Christensen 2001). As researchers from, for example, the CTF at Karlstad University get similar results from their research, it can be assumed that other researchers doing investigations on County Transport or an organisation with a similar size and a similar background at a different place could receive comparable insights to the ones in this thesis (Kylén 2004).
3 Theoretic background

Starting from a perspective where services are seen as activities and processes, value creation is the result of these service processes (Felleson 1998, Vargo & Lusch 2004, Grönroos 2000, Kowalkowski 2006). Value creation is seen as a result of exchange with network partners (Normann & Ramirez 1998). The participation of the customer in the service operation is therefore part of the value creation process (Bowen & Siehl 1989). Value is what the customer perceives worth, defines as a benefit for the services activities (Brännström & Elfström 2002).

Service process, network thinking and value-creation are closely linked to each other and create therefore a certain need to be included to the theoretic background of this paper.

![Diagram](https://via.placeholder.com/150)

**Figure 1:** The authors view on linkage between service, value creation and network theory
3.1 Services

3.1.1 Services definition

The scholar definitions for services were for a long time applying manufacturing logics to services. They showed the differences of services in comparison to products, telling what services are not. The common sense of service definitions was that:

- services are more intangible than products
- they tend to be heterogeneous
- customer orientation is higher
- inventory is not possible

These characteristics represent the so called IHIP paradigm - services being intangible, heterogeneous, inseparable and perishable (Bowen et al. 2001).

Researchers agreed within the last decade or so, that this paradigm does not help to understand what creates customer value (for example Vargo & Lusch 2004, Grönroos 2000, Kowalkowski 2006). Services should be seen as processes, whereas goods are outcomes of processes (Kowalkowski 2006).

Since services are seen as processes, they are produced and consumed at the same or in very close time. Felleson (1998) stresses that this simultaneous process of production and consumption is having impact on the service. The interacting customer is not receiving service, but acting as a value-co-creating resource. Newer definitions of service integrate therefore the process character and the co-production aspect of a service. The most important aspects of these definitions show that services are:

- processes, activities, performances
- applying competences (skills and knowledge)
- at the interface between customer and supplier as well as in supplier internal activities
- for the benefit of another entity (customer) or the entity itself (self-service)
- offered by firms and institutions that generally offer services or consider themselves as service organizations with
- customer interaction designing the organizational service process.


3.1.2 Prerequisites for services

To make a service possible, there are certain prerequisites as resources and processes necessary to make a service possible (Sundström 2006). The prerequisites consist of a service system, a service process and a service concept, shown in the figure below. For all service prerequisites, the needs,
expectations, the knowledge, the interest and ability to co-operate in the service process are important factors (Edvardsson & Modell 1996).

![Diagram of service system](image)

Figure 2: Prerequisites for service operation from a service company perspective. Customer, service offering, service process, and service systems’ resources and structure and also infrastructure (Edvardsson 1996, p. 115)

The *service system* can according to Edvardsson (1996) and Sundström (2006, p.18) be described as

"an arrangement of resources that are needed to realize a service in interaction with the customer." (translation by author)

The system includes employee resources, customer resources, technical and physical resources as well as physical products and organizational structure (Edvardsson & Modell 1996).

The personnel, visible or invisible to the customer, have a strong impact on the service experience. Organisation and structure as further parts of the service system show working routines, organisational structure and responsibility division. Also the service culture is closely connected to personnel and organisation and reflects values and norms within the company (Edvardsson & Modell 1996).
Service processes can be seen as chains of activities based on the use of resources that can include active or passive customer participation. The performance of the customer participation affects the actual service result. The service process is characterised by the performance of activities depending on resources and is accomplished over a period of time, shown in figure 3.

![Figure 3: The service process (Edvardsson quoted in Edvardsson 1996, p. 29 and Echeverri & Edvardsson 2002, p. 117)](image)

There is a logic order existing for every company that helps to achieve defined results for a service in the best way possible (Edvardsson 1996, Echeverri & Edvardsson 2002, Sundström 2006). A service organisation has to adapt to these steps of the service process chain and the lines of visibility (Edvardsson & Larsson 2004).

The third prerequisite, the service concept, describes the match of the service offering with customer benefit. It defines main/side/support services needed to satisfy the customers’ needs and characterises their optimal realisation. So it is manifested in the service concept which customer needs to be focused on and how far the service offer goes (Edvardsson & Modell 1996).

Those three prerequisites that form a service generating system, shown in figure 2, are framed by the service infrastructure. The infrastructure explains that the service operation is based in an environment with historic, political and organizational context in- and outside the company (Edvardsson 1996, Sundström 2006, Echeverri & Edvardsson 2002).
3.1.3 Public services
The definitions and prerequisites discussed until here are valid in general and do not specify on the kind of service. Usually management literature focuses on private companies. Private services and public services are not too different from each other. Still there are some differences that Edvardsson and Larsson (2004) find to have an effect on the customers understanding of the service and on the design of the service. They name the following 5 aspects:

- Public services are not produced to give profit or cause growth for its owner. Rather, they focus on a benefit for the society or its citizens.
- They are democratically ruled and not by shareholders. That has as a result that they are dependent on the political situation.
- Public services are financed by taxes. Though the actual service can be performed by a private service company for which the same laws and quality demands are valid.
- In some cases, public services are service providers and at the same time an operating municipal authority.
- Customers do often not have a real possibility of choice when it comes to public services (Edvardsson & Larsson 2004).

3.1.4 The Quality of Service
As mentioned earlier, the characteristic of services being produced and consumed at the same time influences the service quality experience (Felleson 1998). That relies on the fact, that service quality is strongly related to the subjective experience of the customer. Service quality is defined as what the customer perceives it to be (Grönroos 2000). Another important prerequisite named by Edvardsson and Larsson (2004) is that the customer needs and the service offer do actually match.

Grönroos (2000) conceptualised experienced service quality as an outcome of the factors:

- The technical quality of the outcome (“what the customer is left with, when the service production process and its buyer-seller interactions are over”) (Grönroos 2000, p.63)
- the functional quality of the process (how the service is performed: the functioning of the service and the service encounter with its moments of truth)
- the image of a service provider (the service providers’ image in the customers eyes can be seen as a filter for service quality perception).

Additional dimensions that are the service-scape and economic consequences of a certain solution (Grönroos 2000; see also appendix).
The total perceived quality is dependent on the described experienced service quality, and the customer expectations.

“Good perceived quality is obtained when the experienced quality meets the expectations of the customer” (Grönroos 2000, p.67).

The expected quality reflects a number of factors, such as marketing communication, sales, image, word of mouth, public relations and customers’ needs and values.

The total perceived quality as a customer satisfaction indicator is dependent on the gap between the expected and the perceived service quality (Grönroos 2000). Service quality means then, to “satisfy needs and fulfil realistic expectations; the customers’, the co-workers’ and the managers” (Edvardsson & Larson 2004; translation by author). It is then not only the customer experience with customer-employee contact and interaction, the service process and the service providers’ image that determine the service quality. The needs and expectations of the customer, the employee and the manager are part of the service quality as well.

Gummeson (1993) stresses, additionally to the mentioned technical quality factors, the human relations playing a unique role in the service process for the creation of service quality. Employees and customers interact in the service performance and co-create quality and value together.

### 3.2 The concept of relationship

“Companies cannot choose whether or not to have a relationship with those to which they sell, or from which they buy. Relationships exist between all suppliers and their customers in business markets” (Ford et. al. 1998, p.8).

Following the logics of services, the customer is not only a user but also a purchasing co-producer. Integration of the customer into the work process is therefore necessary to understand the customers’ needs (Brännström et al. 2001). This means that customers and suppliers will probably be found at each others offices and other contacts than marketing and sales will be established. The value creation is then an issue for both supplier and customer in a relationship (Bowen et al. 1989).

The cooperation of two or more business members is a relationship, a “mutually oriented interaction between […] reciprocally committed parties” (Håkansson & Snehota 1997, p. 25). The number of business relationships depends on the willingness and the need of business partners to engage in developing exchange (Järvelin & Lehtinen 1996).

According to Håkansson & Snehota (1997) relationships can further be described from two perspectives. The first one is to focus on a single relationship, the second to see a relationship in a network.
Theoretic background

Looking at a single relationship, the focus lies on the development process between two parties, interactions between partners and the characterisation of the relationship.

“A business relationship between two companies can [then] be viewed as something built up in isolation by the two parties involved, independently of the broader context” (Håkansson & Snehota 1997, p. 2).

Seeing a relationship as a part of a larger whole, it can be defined as a network of independent relationships.

Business relationships can differ a lot depending on the amount of transactions made, the time span for every transaction, the intensity and number of encounters etc. But in general it can be said that all business-to-business relationships develop over time. Going through the process shown in figure 4, they do not evolve in a determined way and might even fail to reach a next step in the development process.

Figure 4: The development of buyer-seller relationships in business markets (Ford et al. 1998, p.29)
Stage one is characterised by high uncertainty. In this phase of the relationship development partners try to learn about and invest in each other, they have to adapt and develop trust to their partner. The next stage is the phase in which the biggest part of learning takes place. In this step, the business partners try to reduce the distance in their relationship and convince the other one of the interest in a relationship to earn trust (Ford et al. 1998).

In step 3 the focus lies on demonstrating the willingness to adapt, to show commitment. Relationship members are still learning, but now more on subjects as investments and adaptation. Informal adaptations play a bigger role than formal ones; the acceptance of formal adaptation is shown by not being broken. In the last stage, the business partners feel stability in their relationship, expressed by routines and standard procedures (Ford et al. 1998).

Additionally to the development in stages, Håkansson & Snehota (1997) describe business relationships from a structural point of view. Characterisations of supplier-customer relationships are according to them:

- **Continuity**
  The average age of a relationship with repeated contracting between a company and its main customer or supplier is about ten to twenty years. From a limited involvement the relationship is built up to a closer, more far reaching one with relative stability.

- **Complexity**
  Relationships are complex as 5-10 persons are involved in keeping contact on each side. People involved can have very different backgrounds. Another factor of complexity is that one relationship can be used to try to achieve several different goals.

- **Symmetry**
  A business relationship can be symmetric regarding resources and initiative of parties involved, influence and initiative balanced.

- **Informality**
  Formal contracts have limited possibilities to solve uncertainty and conflict issues. Dependence on trust and confidence, developed over time, seem to be more effective for a company than contractual arrangements.

Those structural characterizations give a picture of certain stability. A look at what happens within the process of a relationship is described by Håkansson & Snehota (1997) with the following characteristics:

- **Adaptations**
  Modifications and adaptations on both sides are necessary to continue an existent relationship. Changes can happen in production processes, administrative and logistic activities and show commitment of partners.
• **Cooperation and conflict**

Cooperation is necessary to find a way to benefit from the relationship and to find constructive solutions in an atmosphere where different types of conflicts will continue to occur over time.

• **Social interaction**

Personal bonds play an important role in relationships as they are social exchange processes in which member become committed. Interaction between companies creates inter organisational ties and trust.

• **Routinisation**

Rituals, routines and implicit or explicit rules of behaviour develop in important relationships, they help to coordinate individual activities and cut down on transaction costs (Håkansson & Snehota 1997).

Concluding, there can be drawn a picture of relationships developing over time by adaptations and investments from both sides. Commitment and trust emerge between the partners after having engaged into their relationship. The process of relationship building happens mostly informally on a base of social interactions and routines that stabilise the partnership.

That goes even along with Syson and Perks (2004), who say that the key elements of networking are interaction and the exchange of resources. In a service perspective, where customers can be seen as partial employees (Bowen & Siehl 1989), relationships resemble cooperative value creation (Brännström & Elfström 2002).

### 3.3 Value creation

“The ultimate goal, if not the very nature, of economic activity is to create value. Value is produced by humans acting with each other and using the resources that are at hand; previous activities are made available for further action to this effect.” (Normann & Ramirez 1998, p.49)

Value creation is either about giving value to products that exist materially (as in manufacturing) or about value given by the performance and real use of products integrated to a system. In services, value comes as the result of a process (Stahel quoted. in Söderström 2003).

Kowalkowski (2006) argues that goods itself do not have intrinsic value but it is the customers that determines the value of a good as a solution to a specific problem. That says that services as well as manufactured goods are both judged by intangible properties (Brännström & Elfström 2002). The quality, and following the value of services, is depending on the customer experience (Söderström 2003).
Theoretic background

From a traditional view, suppliers, manufacturers and customers are positioned along a value chain. On this chain every part adds value to the received inputs. Every company's goal is, following to this logic, to find the right place on the value chain (Normann & Ramirez 1998). According to Porter (2004), it is the task of a company to communicate value. He says that value is created by the company and then received and rewarded by the customer.

A different view is that value is created in co-operation, in a relationship. It is not the supplier handing over value-added products to a customer, but more value-creation by a collection of activities including different actors. In a perspective of value constellations, and no more value chains existing, the strategy of the company becomes to fit its own competencies and possible customers for value creation and no more putting the company at the right position on the value creation (Normann & Ramirez 2000, Normann & Ramirez 1998).

Value can be defined, from a supplier’s point of view, as the

"perceived trade-off between multiple benefits and sacrifices gained through a customer relationship by key decision makers in the suppliers’ organisation" (Brännström & Elfström 2002, p.3).

From the customer perspective value is the

"perceived worth [...] of the set of economic, engineering, service and social benefits received by the customer firm in exchange for the price paid for a supplier offering [...]” (Bränñström & Elfström 2002, p.3).

As Brännström and Elfström (2002) in their definition, so do Normann and Ramirez (1998) stress the relationship aspect of value creation. In their view, value creation is not happening in a line or chain but in a star or in a network constellation (shown in chapter 4). They regard the relationships between provider and customer as a relationship in which the producer helps the customer to create value. While providers take responsibility for the customers’ results, the customer is not passively receiving. He is an active contributor to value creation in a two ore more way constellation of parties helping each other. Customers in a value constellation are becoming as active as their suppliers. The logic switches thereby to one where the supplier “makes it possible for the customer to do what he does in a better way” (Normann & Ramirez 1998, p. 40).

Customers in this logic do not buy hardware or a service but “access to resources” (Normann & Ramirez 1998, p. 50).

The value creation is a co-operative process with shared risk, shared information and shared profit between the interrelated business partners (Normann & Ramirez 1998, Brännström & Elfström 2002, Wikström & Ramirez 1994). It is the companies’ task to get to know and to stay in touch with the members of the value-creating process, ensuring far reaching and long lasting relationships. It is said to be necessary to understand the customers’ customer to find out how to help the companies’ customer the best way as supplier and customer together.
create value for the end-customer (Wikström & Normann 1994 and Norman & Ramirez 1998).

Combining this idea about value creation with the presented service theory, it can be shown that value creation in service is achieved via processes that include relationship members. Figure 5 demonstrates the shift from a paradigm where value was created in a chain, passed on to the customer as a ready-made value delivery to a paradigm of value co-production in processes. When we talk about customer focus in the new service process paradigm, value creation with a customer focus is

“a form of culture in the firm that directs all processes and activities of the firm towards providing superior value to the customer […]” (John 2003, p.12).

The value creation happens in an interaction, with exchange of knowledge and information between customers, the company and suppliers. The engagement of the companies’ network members to cooperate in a value creation system makes value creation possible (Normann & Ramirez 1993).
The organisation of public transport in Sweden

Public transport is an area characterised by different organisational and political surroundings where many different interests are influencing public travelling (Sundström 2006). The responsibility for the organization of public transportation in Sweden is split between several actors:

It is the governments’ tasks to secure basic transport needs, to secure the creation of good conditions for the co-ordination and development of public transport and to initiate committee meetings for special traffic policy issues. Tools for this are legislation, investments in traffic infrastructure in general and investments in public transport infrastructure (Stlf 2002).

The government elects further the Public Transport Delegation. This committee identifies analyses and describes problems and opportunities within public transportation and formulates objects and visions etc.

The locally elected County Council and the County Administration board as a local authority build together the Public Transportation Authority (PTA). The PTA is the institution that insures public transportation to the inhabitants of a county. It is

“politically and financially responsible for all local and regional public transport within the county” (Stlf 2002, p. 5).

Both together cover the costs for public transport equally as the taxation power for public transportation lies in Sweden on a regional basis. Depending on the size and the population of the county, which can differ a lot in Sweden, the PTA coordinates and organizes public transport. For this purpose the county is split into different areas and for each of these areas (mostly) 4 year tenders are given out to an operating transport company (operator). (Stlf 2002)

The need of a strong cost control is reflected by the fact that most operating contracts in Sweden are given out as gross contracts. The tender contains the costs of carrying out the public transport for one region. While the income of travel fares goes to the PTA, the operator receives a fixed compensation for driving the services. This practice has as a result that increased usage of public transport brings higher income for the PTA. At the same time the operator has increased costs because of higher operation and maintenance costs. This implies some conflict potential. The PTA’s aim is to reach as many passengers as possible by marketing to decrease prices for fares. But the operator is the one actually coming into contact with the customer. The risk is that the customer can get set aside (Johansson 2001).

Another possible form of tendering would be a net contract, where the tender is based on the fares rather than on the costs for running the transport. The operator receives the fares and by this, he gets some impact to take action in planning, marketing and producing public transportation within limitations by a PTA (Johansson 2001).
In a gross contract constellation, the operator can be seen as a production unit. The operator is the supplier of the service performance to the PTA. The passengers resemble then for the operator the customers’ (PTA’s) customers. The operator meets the passengers but under gross contract there is no financial advantage to extend its range of service to the passenger, only costs (Johansson 2001).

In a net contract, the PTA takes over the role of a supervising body. The passenger becomes the operators’ customer and the PTA as a middleman disappears. Increased passenger numbers increase the operators fare intake. Good relations with passengers and marketing activities become interesting for the operator. The value creation for the passenger in a net contract situation is the task of PTA and operator together (Johansson 2001).

Net contract and gross contract differ as well looking at them as imaginary organisations (Johansson 2001). Under gross contract the PTA is a leader company that gets in contact with the customer and has competence and systems for coordination of the system, while other companies as the operating companies are production companies that act according to the leaders specifications.
Under a net contract the organisation resembles a value-creating star, shown in the figure below, in which all the major players collaborate. The PTA and the operators in a relationship try to meet the customers’ needs together as already described in the value creation theory (Johansson 2001).

Figure 8: PTA under net contract (Johansson 2001, p. 107)
5. Discussion

This empirical analysis combines the theoretical background directly with the insights from the empirical data and analyses the material from the three interviews.

5.1 Service thinking

5.3.1 Definition of Transport Service

County Transports’ service understanding, as a transporting service for travellers and even goods, within The County did not show as easily as it might be expected from how they themselves emphasise their service thinking commitment.

The PTA describes County Transports’ task quite broadly:

- organise the common transport needs
- increase availability of the metropole areas
- extend the labour market.

(The PTA in County Transport - transport supply plan 2006-2010 and interview The PTA)

This definition of the task, the service mission of County Transport, seems to focus on the actual planning and organisation of schedules and transportation routes. “Organisation” of transportation is a logistical approach rather than offering a solution to move from one place to another. It is not about the offering of a remarkable and enjoyable bus journey either; it is more about the distribution of outcome in a value distribution (Grönroos 2007). Also the “increase of availability of metropole areas” seems to contain planning of routes rather than focussing on people and travellers.

In the interview The PTA gave another description of what County Transports’ task is. The PTA states that County Transports’ offer is first

“to work as an orderer for the transport companies that submit a tender”

and second

“to have a customer perspective and to try to see which kind of transports are needed and how these needs can be solved the best way”. (The PTA)

This definition focuses more on the organisation of transport than the actual meeting and transporting of the customer, the traveller. The PTA includes the

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1 County Transport Trafikförsörningsplan 2006-2010
operator, the actual service performer, into the definition of County Transports’ task, as a passive actor to Country Transports’ transport organization. Another aspect to be read from County Transports’ task descriptions is the emphasis of an ongoing development of finding solutions to transport solutions. Still, it could be criticized that the formulation does not directly specify that “the needs to be solved” are the needs defined by the customer or the market.

After the author was not completely satisfied with The PTA’s characterization of County Transports’ service offer, the PTA was asked again per email what he sees as the companies’ actual service. Then he answered:

“We sell travelling possibilities to individual customers on behalf of our owners and solutions for personal transport to our owners.”

(The PTA)

It can be interpreted that the expression “travelling possibilities” is implicating more than routes and schedules within The County but also surrounding services like connection possibilities and actual focus on the needs of the customer, as The PTA expresses to find “solutions” for personal transport. Still he does not talk about including the customer into this process of finding solutions. To talk about solutions can be seen as an approach to more individual customer treatment, but this “customer service” is not a mirror for service thinking. The PTA does not indicate that the organization of County Transport did change to adapt to a service process approach towards doing business.

5.3.2 Product and technique feature of the service system

An indicator for a product approach is how a service is organized and that the firm adapts itself to a process view. As it has been indicated in the examination of how The PTA defines County Transport’s business, they have a stronger approach to distribute the created value to the customer then to co-create value with the customer. Another indicator that the service thinking at County Transport is not that strong is the high importance of material resources in the service performance. Some examples for this are the following quotations:

“We are going to introduce the new product County Card. That is an electronic card with a chip, a clear product.” (The PTA)

“Yes, we actually do sell busses. If we would not organise the public transport by tenders we would own and drive the busses ourselves.” (The PTA)

“It is part of the product to have a clean bus.” (The PTA)

The vocabulary in-use at County Transport seems to be product- and outcome-oriented and tends to be interested in physical and technical parts of the service offer. A service system consists of physical products and organisational structure, employee, customer resources and as well technical and physical resources (Edvardsson & Modell 1996). Customer and employee resources do not come so much into focus at County Transport. In the interview and in the
brochure “Transport Provision Plan 2006-2010”, The PTA presents different support instruments for issues like customer complaint, a text communication instrument for busses, a database for vehicles and their routinely inspection, a new ticket system and a re-designed homepage for County Transport.

These instruments and tools are part of the service system rather than the service concept. They have the characteristics of helping tools for the performance of the service performance rather than being related to the actual service offering. Maybe those instruments can help to improve the customer service and make the service encounter easier. But that might not have to exclude immaterial parts of the service offer. Customer service consists to a big part of human interactions and would mean an inclusion of the traveller into the service performance. As already mentioned it seems that one talks more about product delivery, the logistic organisation of moving people at County Transport, which indicates a value delivery view on the creation of an offering and not a service process view with value co-production.

Another statement indicating the importance of the bus itself is that The PTA says:

“It is the bus that is our marketing tool. It is always visible.”
(The PTA)

The marketing mix gets reduced too; one could formulate sharply, delivery and packaging. The customer expectations, the image building, services communication have to rely on the looks of the bus. That probably explains the focus on the cleanliness of busses at County Transport, as the bus can be seen as a mirror for the organisation and its business. The risk to damage the image, to make a bad impression with a bus that is not clean gets much higher following this logic. But this view sets asides that other things as the service outline, the delivery of the service, the price, the advertising and the people, to name some factors, play a role in marketing, too.

Even The Operator’s spokesman shares the impression about The PTA’s general interest in physical parts of the service offering. He says:

“It is all a lot about numbers and busses.” (The Operator)

County Transport is aiming to be a service thinking company. The use of facts, numbers, bus characteristics and driven kilometres as a description what their business is, does not go in line with service thinking. As already indicated this attitude shows a product view where results are easily measurable. Services are more difficult to measure, as they are depending on a row of soft factors like customer perceptions and human interactions. Services are about offering solutions, but County Transport seems to offer busses moving from point A to point B to point C. The customer does not get offered a travelling experience or a solution to mobility within The County, what one would understand according to theory as a service generated by a process.

Grönroos (2000) stresses the importance of an organisations image as a filter for the customers’ service quality perception and Gummeson (1993) sets focus on
the human relations side of service. The PTA focuses and invests in physical resources, the technical service quality factors. But theory shows that soft factors cannot be neglected even though they might be harder to influence or to integrate into the prerequisites for performing a transport service.

5.3.3 High influence of service infrastructure

Services are based on the prerequisites service system, service process, service concept and the infrastructure around it (Edvardsson & Modell 1996). Applying this model to County Transport, the impression evolves that County Transports’ service attitude is influenced by its infrastructure and its' emphasis on the physical service system.

Considering infrastructure, the impression that County Transport is product and outcome oriented rather then services/ process oriented is based on a number of facts. Because of the historic background of County Transport, it can be interpreted as a first point that infrastructure has a strong influence on a Public Transport Authority. The nation-wide organization of public transport went from a public to a private operation only within the past 30 years. It was then reorganized to its' current form, with PTAs being responsible for each its area (Haglund 2001). This relatively fast development with strong changes (Haglund 2001) might be the reason why The PTA of County Transport says:

“One has not seen that [for a long time] that we sell services. There was lots of talk about the fees and the bus itself, not so much the traveller.” (The PTA)

This reflects an approach that is interested in material resources rather then soft factors or human interactions. The PTA formulates that he wants to create some kind of service culture. That a service culture is missing and the busses played and still plays an important role is indicating the high impact of the former product delivery business view of County Transport.

5.3.3.1 The influence of the Public Procurement Act

Another aspect of external infrastructure is law. The Public Procurement Act and other laws set organizational possibilities and the forming of contracts into limits and force the transport Authority to adapt to the given framework.

The basis for the system with PTA’s in each Swedish county and the gross contract tendering is the Public Procurement Act (LOU)², the valid law regulating public purchasing. The LOU is seen as a factor complicating the business situation for both, The PTA and The Operator as it decides about the tendering as the form of contracting for public transport.

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² Lagen om offentlig upphandling LOU
Discussion

The PTA thinks that “the LOU is a complicating factor”. The tendering decides about which operator to work with, whether or not a PTA does really want to build a relationship with this operator:

“The LOU forces us to take even a company that we know is not so good.” (The PTA)

So, seen from this direction, the LOU can be held responsible for problems of quality deficits, because of favouring the cheapest and not the best possible operator. Even relationship building can be difficult because of the LOU deciding which firm to work with, not regarding how compatible the two organizations that should collaborate actually are.

Still The PTA defends the LOU. He thinks that the LOU is useful in terms of transparency when it comes to market rules. The PTA’s view is that the LOU can be “a tool to create a competitive market for effective operators” (The PTA). With responsibility to the tax payers he argues that the tendering creates the highest benefit for the society:

“LOU is the valid law and it is clear that you sometimes can think that it is complicating. But we have to remember that its aim is to protect the tax payer’s money and we have an obligation to use this money with best benefit.” (The PTA)

The PTA stresses here that County Transport has a responsibility towards the tax payers who indirectly elected County Transport as it is a public organ. If the tendering with given relationship partners and unknown or possibly known as negative co-operators really gives the highest benefit is questioned a lot. Doctoral Student says:

“In an open market you buy what you get most value for. But not with LOU regulating.” (Doctoral Student)

He argues that the operator that is the cheapest probably does not create as much value as the value that could be reached with an operator that promises a good collaboration. According to this, the benefit for the society is not optimal in the current situation.

5.3.3.2 Financial issues

The LOU, giving the frame for public transport organizations by tendering, does not only impact the value creation via relationships, but also the financial situation of the players in public transportation. Again, The PTA explains that the tendering is necessary to provide a responsible use of tax money:

“[…] you have to remember that the aim is to protect the tax-payer’s money and to watch out to use it giving the biggest possible profit.”

(The PTA)

The PTA is aware of the financial problems that come with the tendering. He knows that the company with the lowest tendering bid is maybe not the best. Also
the contract time over 8 to 10 years is very long and the economic pressure on operators high:

“The biggest risk is that they go in with too low prices and make deficit over such a long contract time. Then everything becomes wrong. That is why we wrote in our sales plan that it is important that our operators work profitable. This is of course a contradiction as we are tendering them in competition and put economic pressure on them. But if they calculate too low, they cannot fulfil their task.” (The PTA)

It becomes visible that it is very difficult to put economic pressure on a supplier that you expect to deliver service to a specific level. Here become clear that The PTA is in a dilemma: On one hand it is necessary that an operator works profitable to ensure his ability to perform the service delivery in the right way. On the other hand he feels the already discussed responsibility towards the taxpayer to be close fisted with resources. Therefore it is necessary to put economic pressure on operators are private firms that want to make money. Doctoral Student goes deeper into this problematic. He explains that the

“Gross contract makes that the operator has to try to work as cheap as possible.” [...] “Operators in a gross contract try to make profit and fulfill- or maybe not even fulfill- these prerequisites. They don’t get paid to do something more.” (Doctoral Student)

That operators do not engage in the performance of the service can have several reasons as being pointed out during this discussion. The prerequisites, defining hard factors to be followed, come along with the gross contract and define the offering mostly in hard variables.

Another thing is that operators are private operators that are naturally profit-interested. They cannot put resources in stimulating people to take busses (The Operator) or to improve the service (Doctoral Student) given the tight financial frame by a PTA.

“The result of the gross contract is that they try to perform as cheap as possible.” (Doctoral Student)

as Doctoral Student formulates it. So the more economic pressure they receive, it seems like, the worse they are going to perform, because they still want to make profit in some way.

That The PTA regards the need of a privately working operator to earn money as a problem, might sound surprising for the reader with a background of private business. But this attitude could be seen as something quite common for the sector of public services relying to the fact that they are tax financed and aim for benefit of society.

“With our operators we want to have a cooperation that is based on joint responsibility, having to accept that the operator wants to earn money.” (The PTA)
A good relationship with cooperation and common customer focus on one side, specifications on transport performance and economic pressure on the other side, show the conflict potential in the network of a public service organization and its suppliers. It shows the problem to reconcile the will for a service logic of cooperation and value co-creation with the steering of numbers in the tendering and the hard specifications on how to carry out the service.

5.3.3.3 The specifications for carrying out public transport

The gross contract (on a tender-base), giving a high amount of rules to be followed, is another factor influencing the relationship and was found to complicate the desired cooperation. The list of specifications for running the transportation describes in detail how busses have to look like, which routes to take and how this service has to be performed. This specifications list could probably more or less be seen as the main contract content. Doctoral Student describes the need for a precise specification of the service:

"The list with prerequisites is so in detail because we tell them when to drive where and you have to fulfil all these specifications while doing so." (Doctoral Student)

The specification on the transport service have to be fulfilled as an expected service delivery, violations against the rules raise claim for monetary penalties towards the operators.

"In a gross contract you are much defined what things to do. [...] They talk really though about what they want to have [delivered; author's note] for 8 years.” (The Operator)

From the contract side, it can be seen that the only task of an operator is to put these specifications and requirements into action. The problem with this regulatory is that only hard factors can be included in the requirements as they can be measured, whilst we found that the human interaction in the moment of truth and the image building are important factors for service quality in the customer perception, too (Grönroos 2000). The existence of financial pressure and hard variable specifications make that Doctoral Student concludes:

"There is nothing that makes the operator engage in being extra nice, having an extra clean bus. That is the dilemma.” (Doctoral Student)

This statement goes along with the theoretical framework, Johnson (2001) stating that under gross contract there is no financial advantage for an operator to extend its range of service to the passenger, there is only additional costs. Also The Operator agrees on this fact that the requirements are

"the driving force for us is in a gross contract situation, to fulfil the requirements.” (The Operator)
Discussion

That wants to say that requirements get fulfilled but no further engagement on transport improvements and customer service attitude is shown because of these specifications established.

Both, The Operator and The PTA agree on the problem that comes with soft factors, not being included to a satisfacti onal degree in the specifications for transport:

“You can write in a contract ´It has to look like this, it has to work like that, the busses have to be in function and clean, they have to come in time,… the bus driver is responsible for good information and a good treatment´ (of passengers; author’s note); but in practice we have lots of concern about that.” (The PTA)

“Our biggest problem is the behaviour of our staff.” (The Operator)

That is one side of the picture. The Operator and The PTA know about the problem with the specifications and the achieved service quality. Both try to improve the situation.

“We try to educate us about how to handle this and give the possibility to education to drivers and administrative staff.” (The PTA)

In this point there can be stated a certain cooperation between The PTA and its operators. The drivers of an operator receive education from The PTA. This can be interpreted as a way of trying to improve the service offer together to be able to serve a common customer as it is demanded by Norman and Ramirez (1998).

Doctoral Student sees possibilities for cooperation as well:

“Improvements have to stand in the prerequisites. It might be possible to agree on an improvement if there is good communication.” (Doctoral Student)

From the Operators side, improvement and service development intentions are formulated even stronger. Even though financial limitations are generally not allowing engagement over the requirements of the transport specifications, The Operator says about his organization:

“We see ourselves as very good co-operators that like to drive busses and do not ask pay for everything we could ask to be paid for.” (The Operator)

When asked if he regards the gross contract as a hinder, The Operator answers:

“I see contracts as a frame. There are hard factors where it stands clear, which exhaust a bus can have, how old it should be. But there are soft factors as well, that we should contribute to a positive development that you can use for development.” (The Operator)

An emphasis on improvement is shown from The Operator’s side on its own initiative.
“We follow either soft or hard aims every year.”[...] “We are in a continuous product improvement process.” (The Operator)

The Operator is showing engagement in the customer satisfaction even though they cannot get paid for it. They are aware of the tender and the problems of the gross contract. But still The Operator as a private company seeks for a good business performance and good relations and marketing activities. Even though The Operator knows that the tendering is only based on financial issues, he states that they

“try to get advantages in competition for the next tendering in a contract” (The Operator)

This effort above the contractually demanded level is probably the reason why a quality project with The Operator and The PTA can take place. Both, Operator and PTA want cooperation. If both want the same, why can they not succeed?

The PTA states that he wants

“to see that we work closer together. Especially to put into function the quality of the vehicles, right departures, good treatment, good information, a good brand; to agree on which routines and which self-control should be existing. I think that is necessary.” (The PTA)

For The PTA it is operators that make it difficult to cooperate. He thinks that they “do not take enough responsibility” (The PTA).

The Operator’s view is that

“in a gross contract you are strongly defined what things to do. That is actually not the Public Procurement Act but the PTA. They talk really though about what they want to have [delivered] for 8 years.”

(The Operator)

This explains that, even though PTA and Operator seek for a tighter relationship, the contract as a service infrastructure variable and a lack of communication stand in the way to reach this aim.

5.3.4 Customer focus

The cooperation towards a common customer as just described is part of the service thinking, indicating a stakeholder view. Services being processes therefore include also the activity of the customer into the value creation process of a service offer. In the brochure “R3, travellers, research, results”3 The PTA writes:

“You do not only look at the producing, delivering and consuming business, but put the traveller itself in the centre. The customer plays the main role. [...] Instead of focussing on the product, the customer is set first.” (The PTA in R3, travellers, research, results)

3 Resande, Research, Resultat- en presentation av project R3
From this statement it cannot be concluded that the customer is taking part in the service performance process. The PTA says that the customer is set first, but the organisation of County Transport does probably not adapt itself to the steps of the service process chain as requested by Edvardsson and Larsson (2004). Services are processes including the customer. County Transport is giving outcome to the customer rather than including him into the process of service creation. To put the customer first and deliver to him what he desires is a strategy within a product management approach and not specifying the service thinking that The PTA aims for with this statement.

5.2 Relationships at County Transport

County Transport is a public and not a private service company. This has an impact on the demanded development of relationships. Following the theory, in a regular case it would be the way that the relationship between two parties developed over time. Relationships develop, according to Ford et al. (1998), under uncertainty and go through 4 stages. In each of those stages, commitment has to be shown and proved by all relationship members involved.

Differently, it is in public service the Public Procurement Act that regulates the relationship between a Transport Authority and its suppliers. The tendering process and the made contracts decide about relationship partners and create a relationship that has neither introduction nor ending. In the contract time trust and adaptations have to build up during the ongoing contract time and service operation, if that is possible.

5.2.1 Existence of relationships

Tendering steered relationships in public service do not grow and develop but are fixed from the beginning. So the first stages of a relationship building with the step-by-step exploration of each others interests and a slow building of trust do not exist. Without the introduction phase, where partners are supposed to get to know each other, PTAs and public services suppliers are “thrown into the cold water”, forced to deal and arrange themselves with their new business relationship. That means that the distance between a PTA and an operator can still be high during the whole contract time. Trust and adaptations cannot be developed easily without a time where the interests and working manners of a relationship partner can be tested.

Another restrictive moment in the relationship building in public transportation is that the tendering procedure decides which operators a PTA has to deal with. There is no possibility to choose the partner to collaborate with; it is dependent on the tendering offers of operators who will be chosen to perform the transport service. That brings with it the need of dealing with business partners that do not fit to the organisation or that the organisation has bad experiences with. The Doctoral Student at County Transport points out that there is really no possibility
Discussion

to choose operators and profit from the establishing of a good relationship during the contract time in the long run:

“You have a huge disadvantage that, if you have a good cooperation with an operator that works very well, we meet often, the operator feels responsibility and they give the certain service… Then the problem is that we will have a new negotiation coming in a couple of years on who shall run our transport. Then we cannot consider that one operator has done very well in earlier years. This operator gives a tender or 5.6 million and there is another company that hands in an offer for 5.5 million – a company that we had a contract with earlier and that caused trouble. In this case the Public Procurement Act forces us to take that company that was not so good. Because it handed in a lower number.

That makes it not rentable for operators to engage in a closer relationship because the company is going to compete on price only the next time again. Because, according to the Public Procurement Act, we cannot valuate subjectively.” (Doctoral Student)

This quotation shows different problems. First, the tendering gives no choice for an operator that a PTA knows as a good contract partner. In case of a good performance, it cannot be rewarded. Second, the relationship between an operator and a PTA is always on time and it may not be considered efficient to put effort and resources into a relationship that is not based on the collaboration quality but on a single occasion financial competition and gets cut off in the end no matter how the partnership during the contract time went.

5.2.2 Degree of relationship regulation

Håkansson and Snehota (1997) as well as Ford et al. (1998) consider that both partners of a relationship have to adapt to each other to show their willingness to cooperate and to trust each other. A relationship is seen as a mutual interaction between partners that are willing to engage in exchange. The contracted relationship between County Transport and its operators seems to be highly regulated by rules of The PTA.

The process of contracting and the relationship within the contract are regulated by the "Administrative Regulation for Transport Purchasing" so that there is very little space for developments and ideas from the operators side. The Purchasing Regulations give timetables for the tender, specify contact persons and form of contacting in the tendering and in the contract time and similar. Also the legal frame and the requirements for busses and transportation narrow the possibilities for adaptations and creative handling of the contract-relationship. Routines evolving from the cooperation over time are, according to Håkansson and Snehota (1997), a helping tool for relationship building. These routines give

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4 Administrativa Föreskrifter Trafikupphandling 2003
a frame for the cooperation and probably help the partners in the beginning to find their way to each other, as well as they cut down on transaction costs (Håkansson & Snehota 1997). Adaptations and social interactions, supposedly creating deeper relationships resembling a partnership with customers as partial employees (Bowen &Siehl 1989), might not be so easy to fit into this framework of regulations.

Another point where private and public business relationships can differ is the formality coming along with the contract. Håkansson and Snehota (1997) stress that informal as well as social exchange and personal bonds are necessary for the development of trust and confidence.

The PTA understands that trust and close cooperation are helpful to perform their service well:

“The possibilities of a close cooperation are to get to know each other better, to create higher trust and to realise that one has a common task- to satisfy the customer” (The PTA).

During the interview, The PTA often referred to 2 brochures and papers. The impression evolved for the interviewer that County Transport bases its’ business much on papers and documentation. An example for the formality of the contract is that, when the PTA was asked whether operators give much feedback on the contract or not, he answered:

“They have to fill in a form that tells about their costs and regulation prices and what happened in case of increase or decrease of production.” (The PTA)

These circumstances and the earlier explanations create the impression of a quite formal and paper-based culture within business relationships at County Transport.

5.2.3 Security of the relationship

Concluding from the fact that it doesn’t seem to be rentable for operators to invest in a relationship with the PTA, as shown by Doctoral Student, it could be interpreted that the efforts to engage in a relationship between The PTA and The Operator could be asymmetric. The Operator says:

“We try to get advantages in competition for the next tender in a contract.” (The Operator)

The Operator does put effort in something that cannot be rewarded in the current contract situation. The relationship between a PTA and an operator is not continuous. Not only does a relationship have a maximum length defined by the contract, but also it is not granted that the people that are involved into this relationship are always the same. The Operator put it in these words:
Having contracts over 8 years “we always hope that we will make a contract with one person also the next time. Otherwise we have to start from scratch there.” (The Operator)

Håkansson and Snehota (1997), as well as Ford et al. (1998), describe that, after a certain time, a relationship reaches some degree of stability. The perceived stability of a relationship between an operator and a PTA is supposedly high as the contract is fixing the relationship to a high degree, but not created via adaptations and common routines. The penalties for breaking variables of the contract by not running a bus connection and similar are monetary but not ending the contract. The risk of losing the relationship and the contract is probably not as high as it would be the case in a private business surrounding.

5.3 Value creation

5.3.1 Value creation as customer involvement

Services are defined as actions or performances with customer involvement (Felleson 1998). One point that makes the supplier-customer relationship in public service more difficult than and different from other business relationships, lays in the fact that County Transport does not offer its service to the customer, but offers the service via an operator. A problem found in the context of the network of County Transport and its operators is that they cannot be determine whose customers the travellers really are.

On one hand The PTA says that it is County Transport that sells “travelling possibilities to customers”. Other similar formulations are that County Transport wants to “set the customer, the traveller, into focus” (Project R3). The PTA talks much about “the customer” ("kunden") and travellers and the number of travellers. He does not talk about “our customers” so much. That County Transport regards the travellers as the customers of the operator is shown by the following quotation:

“[…] smaller operators that have closer contact to their customers with a higher aim to be popular with the travellers” (The PTA)

The task of County Transport and its operators is to satisfy a customer. As the following quotation shows, The PTA is aware of the fact that County Transport and its operators do not work towards a common customer together:

“The possibilities of a closer cooperation are to get to know each other better, to create a higher trust and to realize that one has a common task- to satisfy the customer.” (The PTA)

This split between one organization creating a service and another organization performing the service seems to create a sort of irresponsibility for the customer within both organizations. Service thinking though includes the customer into the value-creation process instead of delivering ready-made value to a customer. Not to know who the actual service delivering part of the service arrangement is,
leads in this constellation to a point where none of the 2 parties includes the customer into a service creation process.

Country Transport, to a certain degree, sees itself only as the part of the service that gives a basis for the actual service performance:

“You can say we organize the service and buy it from an operator”
(The PTA)

Linking this with the theory of service prerequisites it means that The PTA gives a frame for a service concept, a service system, claims which resources to use for the service offering and then gives the away the actual service performance to an operator. This last step of the service creation process is the step that includes human interaction and the use of the resources. As found earlier in this discussion these two variables are the ones that have the highest effect on the quality perception and image building of the end customer. It is these two variables that The PTA and Bus-Operator seem to be most concerned with: the cleanliness of the busses and The Operators staff meeting the customer. Seen in this perspective, it is the task and responsibility of an operator to perform it the service in the right way, as it is the operator that takes care of the customers for the PTA’s organization. For this view it would probably be helpful if operator could be involved into the service offer arrangement and get more insight and get included in knowledge exchange.

5.3.2 Distance between value creation process members

Value creation and service quality are much about the playing-together of service process participants. The human interactions, the results of the service process, the experiences in the service encounter and the performance in the service process are factors that define with the expectations and experiences of each single customer, about the quality of a service performance.

In the situation of a tendering contract, with an operator performing the transportation on behalf of a PTA, the interaction and value creation between customer, employee and manager gets very difficult. The special distance between the customer and the management as well as the distance between the management (PTA) and an operator’s employees is higher than in a regular business constellation. That could be a reason why the integration of the customers’ customers, being suggested by Normann and Ramirez (1998), is not being performed. The supplier, an operator, would have to include the traveller into a service creation process that is in the hand of the PTA.

The interaction of the operators’ employees and a traveller is part of the moment of truth, an important part of the service quality perception. Doctoral Student formulates, thinking about operators, that

“They don’t get paid to do a good service or to improve the service. So the result from this form of contract is that they (the operators;
That might mean that the effort put in meeting the customer of someone else could be lower than The PTA wishes.

It can be read from this that the operator does more or less perceive the travellers as County Transport’s customers. According to its definition, value creation is achieved by finding out how to help the companies’ customer the best way as supplier and customer together create value for the end-customer. Theory says that it is the companies’ task to get to know and to stay in touch with the members of the value-creating process, ensuring far reaching and long lasting relationships (Wikström & Normann 1994 and Norman & Ramirez 1998).

The exchange of resources and information is an important element for value creation (Normann & Ramirez 1998). “To make it possible for the customer what he does in a better way” (Normann & Ramirez 1998, p. 40) is formulated for the direct customer business. Operators are suppliers of a service performance for County Transport. It could be proposed that “helping to do something in a better way” should include that County Transport should try to help its' suppliers to perform better to their common customers. Through the exchange of knowledge and information Country Transport could help its operators to perform the service in a better way. But according to The Operator, PTA’s in general do not allow insight in statistics as customer satisfaction indices. The PTA defends its knowledge heavy position in the value creating relationship. The formality of the relationship might not help either to get insight into what the service partner is doing. Cooperation and with it communication is part of value creation (Normann & Ramirez 1998).

In this context the distance between members of the value creation process was found to be high and the exchange of information to be low so that the members of the service creation process have difficulties to manage cooperation for the value creation.

5.4 Contrasting the alternatives net and gross contract

The contract has, as found, a strong influence on the business relationships of a PTA and also the way of service performance. Up to now, The PTA-supplier relationship and the problems with the contract contents have been discussed. The third main player in the network of public transport is the customer. Customer focus is one of the main aims of County Transports, as The PTA writes in his information brochures.

Customer focus was earlier described as

“a form of culture in the firm that directs all processes and activities of the firm towards providing superior value to the customer […]” (John 2003, p.12).
From the analysis of the service definition, speculations can be made about County Transport having a product-orientation still in its organisation. Many of County Transports’ activities, such as technical improvements, are not directed to the customer but to the organisation itself. The Operator names also that the contract is a hinder for customer focus:

“Contracts have a strong control function. In a gross contract there is no driving force to change to focus on the customer.” (The Operator)

But The PTA holds on to the gross contract. He sees that the gross contract gives a better possibility to communicate to the customer via brand development:

“The gross contract gives us better possibilities to create a clear brand.” (The PTA)

Branding is a focus of the PTA. But branding is also most of all a tool of marketing towards the customer. To marketing, The PTA says, that the busses, being seen everywhere, all the time, are the most important marketing factor. But all in all marketing is underdeveloped at County Transport (The PTA).

The PTA seems to be convinced of the sales power of the product public transport and its physical helping advices, mostly the busses. He says:

“If we offer a transport that is good enough, we do get enough customers.” (The PTA)

He even says that County Transport does not have any competition. Formulated to the point, in the eyes of The PTA, the service quality resembles the tool for customer focus that has to be improved and that will help to attract more customers. But this perception of service quality as a tool for customer attraction does not work according the theory. The service quality depends on the expected and on the perceived service that a customer receives. Image, which can be affected by for example branding as a marketing tool, is only a filter in the service quality perception, not a factor for lifting the service quality experience and perception.

The opinion of The Operator goes in the same direction:

“Customer satisfaction and clean busses do not increase travel-frequencies.” (The Operator)

Having a customer focus in service management means to understand a customers’ needs and to create a customer (John 2003). But the creation of customers seems to be set asides in County Transports’ management. The Operator says about the use of the gross contract:

“It does not matter if there is more or less people using busses and that is fundamentally wrong.” (The Operator)

It shows that Johnsson (2001) is right about his suggestion that in a gross contract the risk is high, to set the customer aside, because the PTA does not get in contact with its customer. The adoption of processes towards the customer is
therefore not easily possible and restricting the customer focus ambitions of County Transport. 

So we found that the gross contract can have a limiting effect on the development of business relationships, could create financial pressure on service suppliers and thereby reduce the quality of transport performance as well as it does not seem to help the product oriented management to adapt its operations on the customer focus it seeks.

The Operator raises sharp critics on the LOU and its use in gross contract and its use:

“I think it is restraining our work and I think it is used to be restraining. There could be no obstacles in the contract if incitement part would be included in the contract.” (The Operator)

“The LOU is used to be restrictive.” (The Operator)

The alternative to a gross contract is a net contract where a PTA gives up its role as a production unit with responsibility about all business procedures. In a net contract a PTA works as an organization unit of the service, more like a supervising body. The income of the operator, that is no more a supplier but a network member in the transport creation process, depends on the fares he receives, on the transport performance and quality. In net contract, an operator gets certain responsibilities like marketing and evaluating the transport (Johnsson 2001).

It is even possible to have a mix of those two contract types, a so called incentive system, in which PTA and operator share the income from fares and the PTA pays a basic compensation for driving the service. This way, there is a certain security for the Operator to receive a minimum pay for its service, but the incentive part depending on the use of the transport is supposed to keep a market orientation (Doctoral Student).

The PTA, defending gross contract with the responsibility for the use of the tax payers’ money, thinks about a net contract system:

“Another system is to give a route to an operator and let him keep all the intakes from transportation he can get. [...] I don’t think this gets any good because the driving force to make much money is stronger than to get satisfied customers.” (The PTA)

He is against the net contract. His argument that the focus on earning money, in comparison to satisfying customers, increases is challenged by his statement that even in a gross contract County Transport has “to accept that the operators want to earn money” (The PTA). He also says that

“The tendering contract is restricting.” (The PTA)

The ambition to get satisfied customers seems to be quite low in gross contract as The PTA complained a lot about the quality of the service and the behaviour of The Operator’s staff was criticized as well. Following it is questionable if the customer satisfaction would get worse in a net contract. This is why it can be
difficult to understand why The PTA has such a strong attitude against a system with characteristics of a net contract.

The Operator, the Doctoral Student and even the SOU (2003) find that the gross contract should be replaced. SOU (2003) states that it can only be positive if there can be found new ways to regulate public transportation. The Operator gives some reasons why a net contract or an incentive led transport situation could be advantageous for County Transport.

First of all, he says, in conformance with Johansson (2001), that

“The tendering is restricting. If you think about how to get the best for a PTA, I would like to have a different way of working.” (The Operator)

In a net contract or mixed contract form, good relations with the customer become interesting as an increase of customer leads to an increase of income. Customer satisfaction in net contract is a task for both, PTA and operator. (Johansson 2001) This is probably why both, Doctoral Student and The Operator are supporting to go away from the gross contract.

“I hope we are in a change. That with net contract the increase of passengers means an increase of income.” (Doctoral Student)

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5 SOU Statens offentliga utredningar- published reports and thoughts of governmental committees
5.5 Empirical summary and conclusions

Through the empirical material and its discussion it was found that the legal framework and its interpretation by The PTA have a strong impact on the service offering of County Transport. To fit the findings in a bigger picture, they will be summarized in reference to figure 9 that demonstrates the complex structure of Public Transportation.

![Diagram of Public Transportation Network](Figure 9: Network of public transport in Sweden (in dependence on Johansson 2001 and Stlf)

Starting with the given legislation for The PTA, it can be seen as a complicating factor in the value creation process that the Public Procurement Act decides about tendering as a contract form on time or that the LOU is at least used as a legal basis for the tendering. The tendering has as a result that a PTA cannot choose which operator to cooperate with. It is the operator with the lowest tendering bid that a PTA has to establish a service cooperation relationship with. That brings up the question whether the cheapest operator will be the operator that can bring most value. A cheap operator might not be able to deliver service to the desired level or the operator that a PTA can easily build up a good cooperation with.

The tendering impacts the PTA´s work as well by the fact that it puts financial pressure on operators. Having a business task that is steered by numbers, it was
found that Country Transport still kept on with the historically founded product-
delivery-business-approach to some extend and were talking about numbers of 
busses rather than integration of customers. This financial and material oriented 
approach in a service organization could be interpreted as a contradiction. Value 
creation in services is, as found before, reached by cooperation in trustful 
relationships and exchange of knowledge and resources.

But the relationship between PTA and operators is highly regulated on the basis 
of measurable performance requirements and financial numbers. The steering of 
the relationship by the contract only leads to relationships that do not develop in 
a natural way- without phases of trust building and adaptations from both sides. 
The relationship between The PTA and its operators is characterized by the fact 
that both cooperation partners do not know each other and that they have to try 
to find ways how to solve their task during the already ongoing contract. The 
balance of power is thereby not given as the routines and adaptations are mostly 
demanded from the PTA’s side. There is not so much a getting closer to each 
other from both sides. In a private business surrounding the creation of trust 
would have happened before a contract coming into existence. The contract 
would not be as secure as it is in a tendering contract in public transportation.

The contract and the tendering have also impact on the constellation between 
PTA, operator and customer. Due to the tendering, the services’ organisation 
and its actual performance being split between the PTA and an operator, there is 
a risk that the responsibility for the customer gets lost. Value creation includes 
the customer, but in a situation where PTA and operator do not collaborate 
enough to serve a common customer, none of the two gets involved in serving 
“his” or “their” customer.

The limitations that the contract gives to an operator could have as a result that 
an operator under economic pressure is not able to perform in a way that goes 
beyond the measurable demands by the specifications for running a bus. So 
additional to the splitting of the service process between two organisations the 
financial pressure given by the tendering contract decreases the possible service 
performance. That the exchange of resources and knowledge is not being 
perceived to be easy might not be advantageous for value creation of a common 
customer with including the customer either.

The more product-oriented and material interested business approach of County 
Transport focuses maybe somewhat more on routes and busses than on people 
and human interactions. This strengthens the perception of County Transport as 
a service organisation that misses to adapt its organisation to the service process 
and to integrate the customer into this process of value creation.

Services are highly linked to human interactions. County Transport makes an 
impression of an organisation referring to numbers and formalities a lot. This 
indicates that the product perspective with value delivery instead of value co-
creation has a dominant role at County Transport. It might be that a steering by 
costs and numbers on one side does not help to create a value-creating 
relationship based on adaptations and soft factors on the other side.
The organisation of bus transportation is characterised by concerns on quality in the service performance towards the customer, the unsatisfied will of PTA and operator to have a better relationship and to serve customers in a better way. Having contracts steered by numbers and measurable hard factors as well as contractual relationships that exclude the possibility of step-by-step getting to know each other, adaptation and trust creation such as in a private business surrounding, the building of relationships for common value creation seems not to be able. The infrastructure, the interpretation of valid law and the impossibility to create long-term relationship with chosen partners, are hinders on the path of County Transport that the organisation cannot get over yet.

The PTA aims for a solution of public transportation in which the tax payer, and accordingly, the society gain the best benefit from the operation of bus transportation. County Transport is in a situation there a service offer is steered by numbers and oriented on value distribution: In this surrounding it is not the case that as many latent travellers as possible can be reached, so public transportation is being run below its possibilities. This means that the benefit for society might be lower in the current situation with gross contract and tendering of service operators than it could be.

**Service logic research in the future:**

Suggestions for further research could be to examine the service logic in a county there the service performance is not steered by gross contract and to compare the different systems and their impact on relations and value creation. Another interesting question is how and why other public and private organisations there service offer and service performance are split between two companies deal with a common customer.
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Attachments

Service quality model

Figure 10: In dependence on “Two service quality dimensions” (Grönroos 2000, p. 65)