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Service quality on three management levels

Public tendering contracts

A study of service quality in public tendering contracts

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Abstract

Purpose – The aim of this paper is to deepen the understanding of how service quality factors are stipulated in advance within contracts, in order to ensure the providing of a high-quality service to the user, when the service is contracted out to an external partner. It aims to identify, describe, and analyse the service quality descriptions included in contracts.

Design/methodology/approach – The paper is based on case studies and focuses on a comparison of service quality factors in contracts. The empirical base is the public transport sector – a context in which the contracts are widely used, and where the service is standardised, continuous, capital intensive, and provided by external operators, but where contract solutions differ. The contracts analysed are those entered into between 21 public transport companies and their contracted external operators in Sweden.

Findings – The study highlights that service quality factors in formal procurement contracts can be related to three interdependent management levels: the rhetorical level, the strategic level, and the operational level, in each of which the factors are described differently.

Originality/value – The findings provide insight into how service quality is described and used in contracts at three different levels, when the service is provided in a complex business setting, where contractors aim to control the service by contractual means, since they are ultimately responsible for providing the service to the end-users. The research also contrasts with previous research claiming that contractors fail to incorporate service quality from a user perspective, which is not the case in the studied contracts. The paper also makes an important contribution by empirically investigating physical contracts used in a public tendering context, which focus on service quality descriptions, as it has been acknowledged that there is a lack of empirical investigation of the nature and form of contractual arrangements.

Keywords Contracts, Customer services quality, Tendering

Paper type Research paper

1. Introduction

Today, many public organisations and local authorities contract out different public services (Walls, 2005), such as public transport, but these organisations nonetheless aim to control these activities by contractual means, because they are responsible to their end customers (consumers). The public transport sector (like many other public organisations) faces a challenge in providing an attractive public service within the constraints of limited financial resources (Swedish Government Official Report, SOU, 2001:106, n.d., 2003:67, n.d.). In order to meet these challenges, under both political and economic pressure, quality for various stakeholders is an issue that has become important with regard to achieving a competitive strategy (Parasuraman *et al.*, 1988;



Hensher, 2003). An improvement of the quality of the provided service can attract more users, which can in turn have an effect on financial parameters, as well as on universal problems such as congestion, air and noise pollution, and energy consumption, which are all important in today's society. Furthermore, environmental factors need to be considered in order to achieve a sustainable society. Therefore, it has been considered important to offer public transport services of high quality, services that are more reliable and customer orientated (Swedish Government Official Report, SOU, 2001:106, n.d., 2003:67, n.d., Swedish Public Transport Association, 2002). Nevertheless, providing a service that is perceived to be of high quality to its users can be difficult. First, the customers have different needs and requirements. Second, service provision can be influenced by individual differences and behaviours on the part of the service provider and the customer. This is because service provision is an interactive and dynamic process that takes place during the service provision (Grönroos, 1990). However, in some cases, the service needs to be specified in advance, as does the service quality. This is the case in the public transport sector, where the service is contracted out to external operators in a competitive tender process. Contracts do not just involve the obligations and duties of the parties but they also stipulate the service to be provided to the end-user.

Notwithstanding that service quality is an issue that has received a great deal of attention in previous research and has attracted a number of researchers (Crosby, 1979; Grönroos, 1984; Parasuraman *et al.*, 1985; Garvin, 1988; Juran, 1988; Parasuraman *et al.*, 1988; Zeithaml *et al.*, 1990; Cronin and Taylor, 1992; Reeves and Bednar, 1994; Grönroos, 2000; Brady and Cronin, 2001; Schneider and White, 2004; Johnston and Clark, 2005, Perez *et al.*, 2007), there appear to be no studies that discuss or investigate how service quality is formulated in contracts in order to achieve a service of high value to the user, or how service quality is described in contracts. Some discussion can be found in the literature concerning franchising, where the service is stipulated in advance, as the contract concerns a business concept that is outsourced, but what does not appear to have been discussed is how service quality is handled in the business contracts between the parties. Neither does there appear to have been any discussion of how quality issues are handled when the service needs to be stipulated in advance in a contract, and where the contract is drawn up between two business partners, but where the service is evaluated by its consumers on the basis of value-in-use. This is especially important because more and more services are being provided by networks of companies, and contracts do not just include the business-to-business relationship but also the business-to-business-to-consumer relationship – which is the case in the public transport sector.

In service research, little interest has been shown in empirical studies of issues related to how service quality issues are described in contracts (Grönroos, 1984; Parasuraman *et al.*, 1988; Zeithaml *et al.*, 1990; Cronin and Taylor, 1992; Fisk *et al.*, 1993; Brown *et al.*, 1994; Johnston and Clark, 2005; Furrer and Sollberger, 2007). Therefore, this research is motivated as follows: first, most previous service quality research has focused on service quality from a customer (consumer) perspective (Schneider and White, 2004). This study is concerned with a business-to-business-to-consumer relationship context, but the contracts are drawn up between two business partners. Second, although there have been several research studies that examine quality, none, to our knowledge, focuses on how service quality is formulated in contracts, when the service needs to be stipulated in advance,

but with the goal of having a service of high quality to the user, and where the user evaluates the service quality on the basis of value-in-use. The service research literature also lacks treatment of contracts and service quality (Fisk *et al.*, 1993; Brown *et al.*, 1994; Furrer and Sollberger, 2007). Third, more and more companies and organisations today are providing services via networks of companies, whereby the service is contracted out to external partners, but the contractor aims to control the service by contractual means. It is therefore important to have an understanding of the contract and how service quality can be achieved using these constellations. Fourth, there is a lack of empirical research concerning contracts (Mouzas and Blois, 2008), and scant prior research has used physical contracts as an empirical base (Furlotti, 2007).

The aim of this paper is to deepen the understanding of how service quality factors are stipulated in advance within contracts, in order to ensure the providing of a high-quality service to the user, when the service is contracted out to an external partner. We aim to identify, describe, and analyse the service quality descriptions included in contracts. Further, we compare and contrast these findings with previous research.

The paper briefly presents the theoretical framing, which is followed by an outline of the research process. The findings are then presented and discussed, followed by the conclusions, managerial implications, limitations, and future research.

2. Theoretical framing

Previous research has concluded that contracts are important in almost all business relations because they specify agreements, reduce uncertainty and risk, and serve as a communication tool (Roxenhall, 1999; Roxenhall and Ghauri, 2004). Much prior literature concerning contracts is drawn from well-known scholars, such as Coase (1937), Macaulay (1963), and Macneil (1978, 1981), and it can be concluded that, in general, formal written contracts serve a number of purposes:

- to bind the parties together;
- to specify the content of the transaction; and
- to provide evidence of the nature of the agreement and its enforcement (Blomqvist *et al.*, 2005).

Further, the contract:

- acts as a communication tool in the transmission of information from one party to another;
- by reducing uncertainty and risk by stating each party's contribution to the relationship; and/or
- by meeting the requirements of accepted practice in a given business setting.

One of the principal functions of the contract is that it should specify the content of the service and the resources needed for the service to be produced, with service quality being one of the issues. It has been acknowledged in previous research that service quality is important in order to meet the challenges of providing an attractive service.

Given that improved service quality can attract new customers, a number of studies have focused on the dimensions and attributes of service quality, in the specific context of the public transport sector (Milan, 1996; Prioni and Hensher, 2000; Ben-Akiva and Morikawa, 2002; Hensher and Prioni, 2002; Hensher, 2003; Hensher *et al.*, 2003;

Davidsson and Knowles, 2006; Paulley *et al.*, 2006). Some generic dimensions and attributes identified in the studies include punctuality, total bus kilometres, frequency, service intervals, schedule delays, waiting environment, comfort, cleanliness, technical issues concerning the vehicle, arrival time, and information. Previous research has tended to focus on particular issues connected with the actual service, and the perceived value that the consumer can expect, or on important quality issues and determinants (Friman *et al.*, 1998; Fellesson and Friman, 2008). Hensher *et al.* (2003) attempted to create a service quality index in order to measure the fulfilment of commercial bus contracts, but they also discussed performance-based quality contracts in bus service provision (Hensher and Stanley, 2003; Hensher and Houghton, 2004). Many previous studies have focused on the quality of services from a customer (consumer) perspective (Schneider and White, 2004). Perez *et al.* (2007) also attempt to construct a measurement scale for service quality in the public transport sector, using the SERVPERF scale to create QUALBUS suitable for assessing local bus services.

Notwithstanding that service quality has received much attention in previous research, literature on service management and quality in the public transport sector is relatively sparse. The literature on service quality and contracts is also relatively scant, but some studies that are of interest in these areas can be identified. In an attempt to define the relationship between service quality and behavioural intention, Perez *et al.* (2007) identified five research streams in previous research on service quality:

- (1) concept and nature;
- (2) measurement;
- (3) how to improve service quality;
- (4) strategic implications; and
- (5) effects on consumer behaviour.

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

3. Methodology – empirical investigation of public tendering contracts

This study uses an exploratory design, which aims to develop a deeper understanding of the service quality design of contracts. The paper is based on case studies and centres on a comparison of the quality descriptions in contracts.

3.1 Research context

To achieve our aim, a research context that met the following criteria was required. First, because we were interested in contracts, our research context had to be one wherein contracts are widely used, and are a part of day-to-day operations, rather than

a context wherein contracts may be signed but are never referred to or enforced. Second, the context had to be one in which contracts are used to monitor operations. More and more services are being provided within a network of companies, with contractors aiming to control operations by contractual means. Finally, practical considerations required that the context allowed data collection using contracts and acquaintance with the content of contracts without revealing the companies' business secrets that are included in the contracts, and thereby limiting the research objects. Therefore, Sweden's public transport system was chosen as the empirical context; contracts between the public transport authorities (contractors), and their operators (fulfillers) were used as the empirical base of this study.

3.2 *Sampling and data collection*

All transport authorities in Sweden were invited to participate by providing us with contracts from their operations. The research sample comprised 21 contracts between contractors and operators (meaning that we had at least one contract from each public transport authority – PTA). The PTAs supplied us with three different kinds of data:

- (1) contracts between themselves (hereafter labelled contractors) and their operators (hereafter labelled fulfillers);
- (2) written internal materials such as articles of partnership, traffic planning reports, and other internal materials, e.g. educational materials, presentations, minutes, etc.; and
- (3) external materials, e.g. annual reports, traffic planning reports, and other written public documents concerning these organisations.

The written internal and external materials were used in order to obtain a better understanding of the contracts, the organisations providing public transport in Sweden, and the operators.

3.3 *Data analysis*

Following the case study analysis method recommended by Eisenhardt (1989), and inspired by the grounded theory approach suggested by Strauss and Corbin (Strauss, 1987; Strauss and Corbin, 1990), the content of the contracts was analysed. We focused on how service quality was described and defined in contracts. Our primary focus was on the factors *per se*, and the secondary focus was on how service quality descriptions were placed in the contracts.

The analysis comprised three stages. First, we identified descriptions of service quality in the contracts. This means that we did not just focus on the terms quality or service quality within the content of the contracts but also focus on issues that could be connected with the quality descriptions in each contract. Open coding was conducted by noting comments in each contract, with the focus on the service quality descriptions in the contracts, as this was particularly relevant to the focus of the present study. Examples of representative quotations of service quality descriptions in the contracts are presented below:

Satisfactory transport at the lowest possible cost should be delivered.

It is important to stimulate collective travelling.

The driver's behaviour is always essential. A customer will not be satisfied automatically [...] it is important that the driver has a strong feeling for service in the relationships with the customers.

Concerning the environment, it is important that the operator respects each municipality's regulations about leaving the engine running.

It is important to have a high quality of public transport.

The driver of the vehicle shall have good knowledge about the traffic frequency and the routes, its stations and others commitments during the routes. The customer should experience that the vehicle drives efficiently, softly and in a comfortable way.

The overall goal for the contractor is to increase travelling with public transport.

The policy is to offer the customers a reasonable travel time in an easily accessible way, a reliable, value-for-money public transport system.

Punctuality is one of the issues that the customers find most important.

The vehicles are essential for the customers' total experience of the trip.

Quality is not a business standing for itself, it is something that should be included in all processes and not be considered as outside these processes.

In the second stage of the analysis, we identified categories concerning how service quality was described in the contracts. After analysing, and commenting on, all of the contracts separately, the comments from each of the contracts were then compared. The comments were summarised as keywords and phrases in order to be able to identify service quality in the contracts, as well as how this was defined and described. The keywords and phrases constituted the bases for the identified factors. Putting a name or label on the preliminary factors made us focus on the phenomena, which also enabled further analysis, as it was then possible to make comparisons between related factors (Strauss and Corbin, 1990). On the other hand, it is not the naming or choosing of concepts that explains what has happened; rather, the concepts helped us to create explanations. Table I illustrates common expression in the contracts, summarised keywords and the factors that emerged during the analysis.

When we summarised the keywords and phrases, and further analysed the material in order to create the categories, we detected that the service quality descriptions in the contracts could be captured by quality factors. Further, the expressions of quality correspond to different management levels, and the factors are differently described on these levels. This made us ask questions like what does this mean and how can this be explained? What is the implication of using the expression, and whose expression is it? We labelled the levels as the rhetoric level, the strategic level, and the operational level. During the third and final stage of the analysis, we coded data according to the identified categories (factors and levels).

In parallel with the analyses, we used memos (Strauss and Corbin, 1990; Miles and Huberman, 2004) to record our thoughts, reasoning, and arguments, or various questions that came up during the analysis. As these memos were just intended for internal purposes, we have not been limited when thinking about things that came up during the analyses. The memos vary in length and extent. Later in this research process, we also had the opportunity to develop some of the reasoning in the memos, while rejecting others. This has been a helpful way of analysing our work.

Common phrases/quotations from the quality description in the contracts	Examples of summarised keywords	Results of preliminary factors
<p>The vehicles are essential for the customers' total experience of the trip</p> <p>The fulfiller constitutes the contact surface, namely customer. Vehicle hours and vehicle kilometres during the contracts running time. Ticket systems used and information system. Numbers of seats and space in the vehicle and numbers computers small driver places, the climate in the bus (heat), cleanliness inside and outside. The driver's behaviour. The driver should be nice, helpful to the customer. Customers should always feel welcome with questions and comments</p>	<p>Punctuality, total bus kilometres, frequency, service intervals, schedule delays, waiting environment, comfort, cleanliness, effects of vehicle, arrival time, information, the driver's behaviour</p>	<p>Service quality, namely the customer (the offering and the performance)</p>
<p>New vehicles, total weight gives certain age of the vehicles, how to use the vehicles after repair, equipment in form of communication materials</p> <p>Description of the design of vehicles (colour, carbon footprint, and comfort)</p>	<p>Specifications of vehicles, communications tools, low-floor buses, age of vehicles, number of seats, and technical treatment</p>	<p>Technically related quality issues</p>
<p>Low-floor buses, number of people allowed in the bus</p> <p>The bus should be driven safely. The driving style, the vehicles folded, inspection, the driver's training, and education</p>	<p>Health control Heart-lung safety Driving Security</p>	<p>Safety/security</p>
<p>Environment-labelled products will be used where it is possible, e.g. when washing</p> <p>Numbers mole that may be released. CO₂ levels, ISO 14001</p>	<p>Environmental requirements, environment policy, environment audit the environment, and report vehicles' waste</p>	<p>Environment-related quality issues</p>

Table I.
Illustrations of common quality expressions, summarised keywords, and the factors that emerged during the analysis

We took several steps to ensure the reliability of the data. The material is voluminous, and thus the contracts have been studied several times and on different occasions. We have also discussed the content of the contracts, the service quality factors, and so on, with actors who are familiar with the public transport sector and who are involved in the contract process. Further, results have been discussed with other researchers within the field of service research who have knowledge of the public transport sector.

4. Findings

The analysis reveals that the contracts vary in both design and level of detail. Some are formulated in great detail, while others are more loosely formulated, thereby providing the parties with more scope. There is also great variation in the number of appendices, formulations, types of contract (within the industry, there exist three main types of contracts: gross contracts, net contracts, and a mix of the two, called gross contracts with incentives), complexity, length, and duration of the contracts. Simply estimating the number of pages in each contract gives an indication of differences in length. The length of the contracts varies between approximately 30, and in excess of 300, pages, depending on the complexity of the transportation area. Some of the contractors have a portfolio of contracts, while others have just one contract, with the fulfiller. This varies according to the structure of the county council area, and how the transportation area is divided up in order to provide public transport to the citizens. It can also be noted that the contracts are generally for long terms (between five and 14 years). They have fixed expiry dates, which mean that the relationship between an authority and a fulfiller ends on a particular date, after which a new round of public tendering must be held. Even though the 21 contracts studied differ, there are a number of similarities between them. For example, almost all contracts contain descriptions of technical specifications, e.g. the design of the vehicles (colour, carbon footprint, and comfort), as well as what information and ticketing systems are to be used. Many contracts feature strong incentives and fines, as well as formal and detailed evaluation systems for measuring these incentives, for example in order to achieve a service of high quality. Furthermore, the contractor's values are defined in the contract, as a matter that the fulfiller must comply with.

It was apparent in the empirical material that service quality factors are described clearly in the contracts, but are in most cases not defined. None of the studied contracts featured a general definition of the term service quality nor what should be included in the concept. Most of the 21 contracts studied had specified descriptions of quality issues. The treatment of quality issues varies in the contracts. Seven of the 21 studied contracts have an appendix where the quality issues are described. Although in these seven contracts the service quality issues are described in appendices to the contracts, service quality issues are nonetheless also incorporated in the main body of the contract. The quality issues placed in the appendices mainly concern quality that can be related to the service quality that can be perceived by the customer. The analyses of the service quality descriptions in the contracts can be related to five quality factors: general quality factors, service quality, namely the customer, technical-related quality issues, safety/security, and environmental related quality factors. Furthermore, it was also evident in the material, although not recognised in current research, that the service quality factors in the contracts can be related to three different management levels, which we labelled the operational level, the strategic level, and the rhetorical level.

The analysis revealed that the service quality factors are described and expressed differently on each of these management levels. Table II illustrates the quality factors related to the different management levels.

The first management level – the operational level – can be described as a resource-based level, focusing on the prerequisites of the service outcome. It is on this level that the customer of the service experience and the prerequisite for the service are stipulated, as well as how the service should be performed. The prerequisites of the service are described because the contractor wants to ascertain that the customer is obtaining a service of high quality. The quality factors are comprehensive and are specified in great detail in order to ensure the delivery of a high-value service to the customer. This level focuses largely on day-to-day transport operations and includes most of the generic descriptive factors of quality found in previous research, both from a service research perspective (Grönroos, 1984; Parasuraman *et al.*, 1988; Brady and Cronin, 2001; Schneider and White, 2004) and also from concerning factors that can be found in previous transport-related research focusing on issues such as punctuality and cleanliness (Milan, 1996; Ben-Akiva and Morikawa, 2002; Hensher *et al.*, 2003; Davidsson and Knowles, 2006; Paulley *et al.*, 2006; Felleson and Friman, 2008). Our findings on this level are relatively consistent with previous research (Grönroos, 1990; Hensher, 2003). It has been claimed in previous research that contractors have failed to incorporate the service quality from a user perspective (Hensher, 2007). However, in contrast with much previous research, this study reveals that service quality factors on the operational level are mostly about the service quality that the user finds important, such as timetables, punctuality, cleanliness, etc. The analysis of the contracts revealed that the operational level receives a lot of attention in the contracts.

The second management level – the strategic level – focuses on how to monitor the operator. This level establishes a framework enabling quality assurance and improvement work to achieve the goal of providing a high-value service to the user. On this level, expressions like “Quality work needs to be structured according to a model” are common. This phrase shows that the contractor demands some form of quality assurance and improvement model in order to achieve a certain service quality. Another common expression on this level is “the operator should develop the service in cooperation with the PTA”, which is an example of the contractors believing that the service quality process needs to be integrated into other processes, as well as the entire sector, of which the following expression is also an example: “Quality is not something that can be driven as a single process, instead it must be integrated into the entire industry”. One way of achieving this goal is to use a model, such as quality management models and environmental models (ISO 14001 is one example); this model at least provides the prerequisite for working with quality in a structured way. While this level acts as an indication of how the service should be performed in order to achieve service quality, it also controls the fulfiller. On this level, the contract has a monitoring effect, as it stipulates both the service quality and the service being provided, simultaneously with the contracts that are used to monitor the business relationship.

Third, the rhetoric level can be defined as a visionary level, focusing on the missions and visions. The service quality factors on the rhetoric level can be explained in terms of expressing an aim or desire, which should permeate the entire organisation and the services in general. This level reflects central government and the provision of the institutionalized guiding principles for public transport services. The service quality

Table II.
Service quality factors at the three management levels

Management levels Service quality factors in the contracts	Operational level Illustrations from the contracts	Strategic level Illustrations from the contracts	Rhetoric level Illustrations from the contracts
General quality factors	Operationalise the strategic and the rhetoric level	Quality work should be structured on the basis of some form of model Generally, the operator should work according to some quality model Recruitment and education are very important. The driver should be authorized according to standards	Important to fulfil the contracted quality goal, both soft quality and hard quality requirements Having satisfactory public transport at the lowest possible cost The overall goal of the contractor is to increase travel by public transport It is important to have high-quality public transport
Service quality, namely the customer (this factor is divided into two parts: the service offering and the performance)	The policy is to offer customers a reasonable travel time in an easily accessible way, a reliable and value-for-money public transport system Punctuality, total bus kilometres, frequency, service intervals, schedule delays, and the waiting environment are important factors. But also comfort, cleanliness, effects of vehicle, arrival time, and information to the customers Personnel behaviour [...] the customer's perception of our services is largely connected due to all personal contacts when using the public transport. The goal is to create a positive atmosphere [...] customers should always feel welcome with questions and comments [...]. All contacts do not mean that a dialogue need occur [...] but each contact is important [...] for disabled people the personal hospitality is vital for their ability to use public transport Good driver behaviour is always essential. A customer will not be satisfied straight off [...] it is important that drivers have a strong sense of service in their dealings with their customers The operators have the responsibility for service levels and these being adjusted according to demand	Operators undertake, in providing services, to act in accordance with public transport authorities' long-term objectives and goals in order to get more people to use public transport Develop services in cooperation with the operators Quality is not an independent activity or thought. It should be integrated into all processes and should not be considered external to these It is important that the personnel feel informed and part of the organisations. The operator needs to develop systems so the personnel are informed about what is going on	High-quality public transport can lead to more satisfied customers It is important to stimulate travel by public transport It is good to have public transport Commitment on the part of the operator Important to fulfil the contracted quality goal, both soft and hard quality requirements To have a satisfactory public transport at the lowest possible cost The overall goal of the contractor is to increase travel by public transport

(continued)

Management levels Service quality factors in the contracts	Operational level Illustrations from the contracts	Strategic level Illustrations from the contracts	Rhetoric level Illustrations from the contracts
Technical related quality issues	<p>Vehicles must always be and feel clean and tidy throughout the journey and on all occasions [...]. litter, lack of cleaning and vandalism shall be remedied as soon as possible</p> <p>Highly specific description of the design of vehicles (colour, carbon footprint, and comfort)</p> <p>Specification of the use a certain ticketing and information system in the buses</p> <p>Age of the vehicles</p> <p>Low-floor buses, numbers of seats, and space aboard vehicles and numbers computers small driver places, onboard climate (heat), cleanliness inside and outside</p> <p>The vehicles folded inspection, equipment in form of communication's materials in the buses and how to use it</p> <p>New and old buses</p>	<p>The operator needs to follow normal laws and regulations concerning technical standards in the vehicles. Further, the operator needs to follow the different standards that are common in the industry</p>	<p>It is important to fulfil the contracted goals, in order to increase the level of access for the disabled and the elderly</p> <p>Stimulate travel by public transport</p>
Safety/security	<p>The style of driving. The bus should be driven safely. The buses must be driven in a secure way. Services must be perceived as reliable and safe by travellers</p>	<p>The driver should take part in different educations and in common standards concerning the driving styles</p> <p>Training and education of the driver</p> <p>The operator needs to make sure that the drivers are healthy in order to increase the security for the customers</p> <p>An environmental management system such as ISO 14001 should be used</p> <p>The operator needs to follow normal laws and regulations concerning environmental factors</p>	<p>Public transportation forms part of the "zero-vision" endeavour when it comes to road traffic safety</p>
Environmental related quality issues	<p>CO₂ emissions, environmentally labelled products should be used wherever possible, e.g. when washing. Numbers mole that may be released</p> <p>There are a number of environmental specifications in the contracts that are related to more numbers and different levels</p>		<p>The company is characterized by innovation and concern about the customers and to achieve a sustainable society</p> <p>Concerning the environment, it is important that operators respect municipal regulations about leaving engines running</p>

factor is broadly based on the shared goals of society, rather than on private commercial motives, and affects day-to-day operations, as it requires the reallocation of resources as well as the redesign of the service being provided by the parties involved in running it. The factors on this level are expressed in very generally, which can be seen in the following quotations from one of the studied contracts: “Satisfactory services are important so that the citizens take the opportunity to use public transport; public transport should have a high level of quality”, while it was also expressed that: “Public transport is a part of creating a more environmentally-friendly way of moving and travelling”. A further illustrative passage found in a contract was: “It is important to have operators committed to providing services as this, by extension, can lead to more satisfied customers”. As the quality factors are expressed quite broadly, it is the parties (or to be more specific the contractor) in the business relationship that need to define the term service quality. In the absence of a definition, the meaning of the term service quality will be open to interpretation. While there is no uniform definition of quality, quality exerts a major influence on all of the parties involved in the business relationship: contractors, fulfillers, and consumers (Table III).

5. Discussion

The empirical findings lead to an interesting observation and question, regarding if and, if so, how, the three management levels are aligned. Our empirical findings indicate that all three levels exist in the contracts, but the scope that the three different management levels vary among the studied contracts. As the rhetoric level is defined above as a visionary level, expressing the visions and missions, this level should ideally permeate the entire contract, and it should also be a level that should affect, or be the base for, the other levels. An interesting observation is that it appears that the rhetoric level is not connected to the other two levels; that is, there are no indications in the contracts about how to achieve this level by fulfilling the other two levels. The rhetoric level is an expression of what to achieve, but the analysis shows that there is no obvious definition, description, or guidance about how to meet the goals on this level. This might indicate that the rhetoric level is not connected to the other two in a specific way. The general idea is still that this level permeates and influences the other levels, while the other levels both are influenced by, and influence, the other levels in creating new issues in order to provide a high-value service for the customers. Another observation that was made during the analysis was that it seems that the strategic level can be connected to the operational level in a more specific way. This is because there is an indirect connection between the operational and the strategic level, because the strategic level provides the frameworks, for example, by stating that some sort of management system should be used, such as ISO 14001. This can in turn provide the frameworks for the parties in identifying the important issues to focus on at the operational level, such as that environmentally friendly products should be used whenever possible (for example, when washing the vehicles). Nevertheless, there is need for more research in order to investigate whether, and if so, how, the levels are aligned, and the effect the levels can have on the service being provided.

6. Conclusions

This study highlights that service quality factors in formal procurement contracts can be related to three management levels: the rhetorical level, the strategic level, and the operational level. While the service quality factors can be found on each of these three

Management levels	Definitions	Examples from contracts
Operational	A resource-based level focusing on the prerequisites for the outcome of the offering	<p>The style of driving. The bus should be driven safely. The buses must be driven in a secure way. Services must be perceived as reliable and safe by travellers</p> <p>Low-floor buses, numbers of seats, and space aboard vehicles and numbers of small driver places, onboard climate (heat), cleanliness inside and outside</p> <p>Punctuality, total bus kilometres, frequency, service intervals, schedule delays, and the waiting environment are important factors</p> <p>Good driver behaviour is always essential. A customer will not be satisfied straight off [...] it is important that drivers have a strong sense of service in their dealings with their customers</p> <p>The policy is to offer customers a reasonable travel time in an easily accessible way; a reliable and value-for-money public transport system</p> <p>The operators have the responsibility for service levels and these being adjusted according to demand</p> <p>Vehicles must always be and feel clean and tidy throughout the journey and on all occasions [...] litter, lack of cleaning, and vandalism shall be remedied as soon as possible</p> <p>CO₂ emissions, environmentally labelled products should be used wherever possible, e.g. when washing</p> <p>Quality work should be structured on the basis of some form of model</p> <p>Fulfillers undertake, in providing services, to act in accordance with public transport authorities' long-term objectives and goals in order to achieve more people using public transport</p> <p>Develop services in cooperation with the operators</p> <p>Quality is not an independent activity or thought. It should be integrated into all processes and should not be considered external to these</p> <p>An environmental management system such as ISO 14001 should be used</p> <p>The operator needs to follow normal laws and regulations concerning environmental factors</p> <p>It is good to have public transport</p> <p>High-quality public transport can lead to more satisfied customers</p> <p>Commitment on the part of the operator</p> <p>Important to fulfil the contracted quality goal, both soft- and hard-quality requirements</p> <p>It is important to stimulate public transport</p> <p>The same applies, in order to increase the level of access for the disabled and the elderly</p> <p>Public transportation forms part of the "zero-vision" endeavour when it comes to road traffic safety</p> <p>Having satisfactory public transport at the lowest possible cost</p> <p>Concerning the environment, it is important that operators respect municipal regulations about leaving engines running</p> <p>Stimulate travel by public transport</p> <p>The overall goal of the contractor is to increase travel by public transport</p> <p>It is important to have high-quality public transport</p>
Strategic	A monitoring level focusing on monitoring the operator	
Rhetorical	A visionary level focusing on the mission and visions	

Table III.
Definitions and examples of the three management levels

levels, the factors are expressed differently on each level. The findings provide insight into how service quality is described and used in contracts, when the service is provided in a complex business setting, where contractors aim to control the service by contractual means, since they are ultimately responsible for providing the service to the end-users. Although the quality factors and various characteristics have been described and analysed in previous research, we make an important contribution to research in this area by providing a description of how service quality is described in contracts and by adding to previous research about how service quality is stipulated in advance. To relate service quality factors to different management levels has not, to our knowledge, been described or discussed in previous literature (Schneider and White, 2004).

In previous research (Hensher, 2007), it has been claimed that contractors fail to incorporate service quality from a user perspective. The results of our analysis of the studied contracts contradict this claim. Instead, our research reveals that service quality on the operational level mainly concerns service quality that the user finds important, such as timetables, punctuality, and cleanliness, which have been identified as important factors for users. Nevertheless, the outcomes need to be monitored and the formulations of the issues within the contracts were found to be very specific, in order to provide a mechanism to measure and monitor the fulfiller. The contracts serve several functions not just to specify the obligations and duties among the parties but also to stipulate the service being provided, as well as to monitor the fulfiller, which is consistent with previous research (Coase, 1937; Macaulay, 1963; Macneil, 1978, 1981; Roxenhall and Ghauri, 2004).

We also make an important contribution, given that the research had access to and used actual contracts that are used in a public tendering context and that focus on service quality descriptions. It has been pointed out in previous research that there is a lack of empirical investigation regarding the nature and form of contractual arrangements (Furlotti, 2007; Mouzas and Blois, 2008).

7. Managerial implication

The findings suggest that the specification of service quality in contracts is a complex matter, particularly as there are many parties involved in providing the relevant services, and all interests need to be taken into account in contract design. This might indicate that it may be difficult to provide a high-value service, since the provision of the service is impacted by individual differences and behaviours on the part of the provider and the customer (Grönroos, 1990). The terms of the service quality in the contracts in the sector under study are unilaterally dictated by the contractor, and the contractor must ensure that the key terms are included from the beginning, as the contracts allow for no opportunity to make subsequent major amendments, and the service is ultimately performed by the fulfiller. This is a challenge for the contractor, since what is stipulated in the contract introduces further legal dimensions to the business relationship (Cohen and McKendrick, 2005), including service quality. Swedish law (Swedish Code of Statutes, 2007:1091, n.d., 2007:1092, n.d.) prohibits any negotiation process between the parties involved in the business relationship in the context of public sector, which in turn has an effect on service quality issues, as these issues must be specified in advance. The study has shown the importance of the content of the contracts, since one of the most critical decisions for managers' concerns formulating the "ideal" contract to ensure that the service is provided at an optimum level.

Our results also reveal that the way in which service quality is designed and formulated in contracts today tend to be “static” in type. “Static” contracts are those that are largely concerned with the securing of resources, with a focus on capacity (Ramirez and Wallin, 2000), which is the case in the studied contracts. However, contracts can also be “static” in terms of their content (for example, if the wording of the contract cannot be changed), while they may also, at the same time, be more “dynamic” in terms of their outcome (if performance is subject to varying interpretation during the term of the contract). This is illustrated in the contracts under study, since there are no opportunities for changing the content of the contract, including the service quality, during the course of the business relationship: the parties may evolve, but the contracts remain static. Moreover, a contrast can be drawn between complete contracts (which specify all conceivable scenarios) and incomplete contracts (in which it is recognised that not all factors that can affect a contract are foreseeable at the time the contract is finalised). The latter allow room for interpretation, and, although such a contract might be less certain, it is simultaneously more open and flexible. This is the case in the studied contracts concerning service quality. There are no opportunities for major amendment in the contracts, notwithstanding that the studied contracts have a long duration time, and circumstances can occur over the contractual period. This is also a challenge for managers designing and formulating contracts, in aiming to ensure a service of high quality.

8. Limitations and future research

As with all empirical studies, this study has some limitations that need to be considered, concerning both interpretation and application, but these limitations also suggest several research directions. First, the study should be seen as an initial attempt to study how service quality is specified in contracts; there is also a need for more research in this area in order to verify the conclusions. This could be done through a quantitative research design. Second, we conducted our study in one context – contracts in the public transport sector. Further research should expand investigations into other contexts, both national and international, as well as to contracts in other public and private operations, in order to test the results of this study. Third, while the study has investigated service quality in contracts, further studies are needed in order to gain a deeper understanding of how service quality is monitored using contracts in order to create a service that is of high value to the customer. Within service management, theories about value-in-use (Vargo and Lusch, 2004) – and in research – concerning quality, the consumers’ needs and wishes are in focus (Grönroos, 1990). However, further research is needed in order to investigate the usefulness of these theories when desires and needs are attempted to be managed through contracts. Fourth, it has been acknowledged that more research is needed in order to understand how contracts work in exchange businesses, in order to understand, in turn, how the contracts affect various parties, for example the parties involved in the business relationship, especially therefore contracts involving a business-to-business relationship. Further, the study has taken the contractor’s perspective, but future studies should focus on both parties in order to gain a deeper understanding of how contracts work as a tool for governing not just the parties in the business relations and thereby how the contracts affects the business relation but also the service and the providing of the service in daily business operations.

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