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Towards a successful contractual relationship
Public service procurement from a small business perspective

Master's Thesis

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<p>The share of small- and medium-sized enterprises (SMEs) in public procurement lags behind their actual economic role. Both SMEs and large organizations face challenges in public procurement but often small businesses' resources are scarcer and they experience greater difficulties. SMEs' more active participation in public procurement could increase competition, encourage innovativeness, contribute to job creation and economic development, and lead to better public services.</p> <p>The aim of this thesis is to find out why it may be challenging for SMEs to become suppliers for the public sector and what factors promote SMEs' participation and success in public procurement. The study also defines the concept of a successful contractual relationship in the context of public service procurement. The majority of the empirical material was gathered in a case study which was conducted in collaboration with a large Finnish municipality. Data collection and analysis methods are qualitative, including interviews, observations of group discussions, and textual analysis. Both procurer representatives and suppliers were included. The public procurement process is studied through its three phases: planning, tendering, and contract implementation and follow-up.</p> <p>Based on both theoretical and empirical findings of the study, the success of a contractual relationship consists of two dimensions: relationship <i>value</i> and relationship <i>quality</i>. Due to legislation and different environments, the formation of a successful contractual relationship seems to be more challenging in the context of public procurement than in the private sector. The planning and tendering phases are extremely important for the success of a contractual relationship. Also the quality of contracts and tendering documents may indicate the success of a relationship. Knowledge sharing is the major enabler of a successful relationship and it is needed in all phases of the procurement process.</p> <p>Challenges that SMEs face in public procurement remain the same in all industries and it seems that problems are related to the structures and procedures rather than to specific substances. There seems to be no fundamental hindrances to SME participation in public procurement as long as contract sizes remain moderate. What is needed is an active role of companies as well as reciprocal knowledge sharing and interaction in all phases of the public procurement process.</p>			
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<p>Pienten ja keskisuurten yritysten (pk-yritysten) määrä julkisissa hankinnoissa on pieni verrattuna niiden kokonaistaloudelliseen osuuteen. Myös suuret organisaatiot kohtaavat haasteita julkisten hankintaprosessien aikana, mutta pk-yritysten kokemat vaikeudet ovat usein suurempia niiden rajallisempien resurssien vuoksi. Pk-yritysten aktiivinen osallistuminen julkisiin hankintoihin voisi lisätä kilpailua, edistää innovaatioiden syntyä, vaikuttaa positiivisesti työllisyyteen ja talouteen sekä johtaa laadukkaampiin julkisiin palveluihin.</p> <p>Diplomityön tavoitteena on selvittää, miksi pienten palveluntarjoajien voi olla haastavaa päästä julkisten toimijoiden sopimuskumppaneiksi ja mitkä tekijät puolestaan edistävät pk-yritysten menestymistä julkisissa hankinnoissa. Lisäksi työssä määritellään onnistunut sopimussuhde julkisten palveluhankintojen kontekstissa. Suurin osa empiirisestä aineistosta on kerätty tapaustutkimuksen avulla yhteistyössä suuren suomalaisen kuntatoimijan kanssa. Data on kerätty ja analysoitu laadullisin menetelmin. Menetelminä on käytetty haastatteluja, ryhmäkeskusteluiden observointeja sekä sisällön analyysia. Mukana on ollut sekä hankkijan että yrityspuolen edustajia. Julkista hankintaprosessia tutkitaan sen kolmen eri vaiheen kautta: hankinnan suunnittelu, kilpailutus ja sopimuskausi.</p> <p>Kirjallisuuden ja empiirisen tutkimuksen perusteella onnistunut sopimussuhde julkisten hankintojen kontekstissa koostuu kahdesta tekijästä: suhteen <i>arvosta</i> ja suhteen <i>laadusta</i>. Lainsäädännön ja erilaisen toimintaympäristön vuoksi onnistuneen sopimussuhteen muodostuminen julkisten hankintojen kontekstissa on usein haastavampaa kuin yksityisellä sektorilla. Hankinnan suunnittelu ja kilpailutus ovat merkittäviä vaiheita sopimussuhteen onnistumisen kannalta. Myös sopimuksen ja kilpailutusdokumenttien laatu ennakoivat suhteen onnistumista. Tiedon jakaminen on yksi tärkeimmistä onnistuneen sopimussuhteen edistäjistä ja sitä tarvitaan hankintaprosessin kaikissa vaiheissa.</p> <p>Pk-yritysten kohtaamat haasteet ovat samoja eri toimialoilla ja näyttäisivätkin liittyvän enemmän julkisten hankintojen rakenteisiin ja menettelytapoihin kuin tiettyyn hankinnan kohteeseen. Pk-yritysten menestymiselle ei näytä olevan perustavanlaatuisia esteitä niin kauan kuin sopimuskoot ovat maltillisia. Lisäksi tarvitaan yritysten omaa aktiivisuutta sekä hankkijan ja yritysten välistä vuorovaikutusta ja tiedon jakoa jo suunnitteluvaiheesta lähtien.</p>			
Asiasanat: Julkinen hankinta, palveluhankinta, pk-yritykset, onnistunut sopiminen, sopimussuhde			

Preface

This thesis was carried out in the SimLab research unit at Aalto University School of Science. The major part of the research was conducted in the VISO project during the spring and summer 2013.

First of all, I would like to thank my instructor Katja Koskelainen for introducing me to the world of public procurement. I would also like to thank my supervisor Professor Riitta Smeds for her guidance and academic insight.

Many thanks go to the whole VISO research group. Soile: thank you for your useful comments regarding my thesis as well as changing my opinion about lawyers. Suvi and Asta: it has been a pleasure to work with you. Thank you for all the creative disturbances, overlong lunches, afternoon exercises and profound discussions. I am going to miss the inspiring atmosphere of Lykeion.

Finally, I would like to thank my sister Soila who helped with the grammar and read the whole thesis, which was quite a feat for a humanist.

Otaniemi, August 27, 2013

Ulla Patajoki

Table of Contents

Part I: Introduction	1
1.1 Introduction to the study	1
1.2 Research problem and objectives.....	2
1.3 Scope of the study.....	3
1.4 Research methodology.....	4
1.5 Structure of the thesis	5
Part II: Research process and methods	6
2.1 Research process.....	6
2.2 Qualitative research approach.....	7
2.2.1 Case study	7
2.2.2 Literature review	8
2.2.3 Abductive reasoning	8
2.3 Data collection and analysis methods	10
2.3.1 Description of the case study	10
2.3.2 Interviews and simulation day	11
2.3.3 Observation of future workshop	13
2.3.4 Overview of research methods and data	14
Part III: Literature review	15
3.1 The progress of literature review	15
3.2 Public procurement.....	16
3.2.1 Principles of public procurement	16
3.2.2 Public procurement legislation	18
3.2.3 Public procurement vs. private purchasing	19
3.2.4 Service procurement	21
3.3 Small- and medium-sized enterprises	22
3.3.1 Definition and characteristics of SMEs	22
3.3.2 SMEs in public procurement	23
3.3.3 Challenges faced by SMEs in public procurement	24
3.4 Successful contracting	26
3.4.1 Contracts	26
3.4.2 Proactive contracting and relational contracting.....	27
3.4.3 Successful contractual relationship.....	29
3.5 Conclusions of literature review	36
Part IV: Empirical findings	38
4.1 Small businesses in public procurement	38
4.2 Successful contractual relationship.....	39
4.2.1 Objectives of a contractual relationship.....	39
4.2.2 Elements of a successful contractual relationship.....	41
4.3 Barriers and enablers of a successful relationship	43
4.3.1 Barriers of a successful relationship	43
4.3.2 Enablers of a successful relationship	54
4.3.3 Summary of barriers and enablers	59

Part V: Discussion	60
5.1 Small businesses in public procurement	60
5.2 Contracts and tendering documents	61
5.3 Successful contractual relationship.....	62
5.4 Barriers and enablers of a successful relationship	63
Part VI: Conclusions	66
6.1 Results.....	66
6.2 Reliability of the study.....	68
6.2.1 Validity of the research.....	68
6.2.2 Limitations of the study	69
6.3 Theoretical implications	71
6.4 Practical implications.....	72
6.5 Suggestions for further research	72
References	74
Appendices	81
Appendix I: Interview questions.....	81
Appendix II: The program of the simulation day	83
Appendix III: The program of the future workshop	84

List of Figures

Figure 1: Three phases of the public procurement process.....	3
Figure 2: Structure of the thesis	5
Figure 3: The research process	7
Figure 4: Abductive research process.....	9
Figure 5: Abductive research process in this study	10
Figure 6: Contents of literature review	15
Figure 7: Three phases of the public procurement process.....	17
Figure 8: Functions of contracts	27
Figure 9: Characteristics of proactive contracting	28
Figure 10: Contractual relationship	29
Figure 11: The components of relationship quality	33
Figure 12: Successful contractual relationship.	34
Figure 13: Framework for a successful contractual relationship	36
Figure 14: Theoretical framework for a successful contractual relationship.....	71

List of Tables

Table 1: Interviews	11
Table 2: Participants in the simulation day.....	12
Table 3: Examples of the categorization of interviews.....	13
Table 4: Participants in future workshop	14
Table 5: Total number of informants	14
Table 6: National and EU-level thresholds for public procurement	19
Table 7: Differences in public and private buying.....	20
Table 8: Differences between goods and service procurement.....	22
Table 9: SME definition	22
Table 10: Barriers to SMEs' participation in public procurement at the EU level.....	25
Table 11: Barriers SMEs face in different phases of public procurement process	25
Table 12: Dimensions of relationship value	31
Table 13: Previous research related to elements of relationship quality.....	32
Table 14: Barriers to the formation of a successful contractual relationship.....	43
Table 15: Enablers to the formation of a successful contractual relationship.....	54

Part I: Introduction

The introduction part will present the background and motivation for the thesis. In this part I will shortly discuss the context of the study and define the research questions as well as the objectives of the study. A short description of the methodology is also given.

1.1 Introduction to the study

Public organizations are increasingly buying the services they need, rather than producing them by themselves (Linna and Pihkala 2008). The total expenditure on public works, goods, and services in Finland in 2010 was about 34.94 billion euros which represents almost 20 per cent share of GDP (European Commission 2011). Thus, the economic value of public procurement is enormous. There is no accurate statistical information about municipal procurements in Finland; however, they account for a significant share of the total amount of public procurements (Lith 2012). Services account for a remarkable share of all procurements and the amount of purchased services is increasing rapidly in nearly all sectors within Finnish municipalities (Lith 2011).

Previous research on public procurement has focused on themes like strategy and partnerships, legislation, organizational aspects, innovation, and learning (Arlbjørn and Freytag 2012). Previous research has also recognized many challenges related to public procurement and especially municipalities are argued to face problems when procuring (e.g. Lundström 2011). Until now, scholars have concentrated on the procurer's perspective while private organizations and their role in public procurement have received less attention. Research related to small- and medium-sized enterprises (SMEs) and their success in public procurement is particularly scarce even though SMEs' share of all companies, as well as their economic impact, is very high both globally and in Finland (GHK 2010; Pk-yrity sbarometri 2013).

SMEs account for more than 99 per cent of all companies in both the European Union and Finland. SMEs' turnover exceeds 50 per cent of the total turnover of companies and they employ more than 60 per cent of the total labor force. Between 2006 and 2008, the proportion of SMEs amongst companies who won public contracts above the EU thresholds ranged between 58 and 61 per cent in the European Union. In terms of total contract value, SMEs accounted for an even smaller share, between 31 to 38 per cent. These figures show that the share of SMEs in public procurement lags behind their actual economic role. (GHK 2010; Pk-yrity sbarometri 2013)

Thus, SMEs' limited market access in public procurement is a recognized issue. In the European Union, companies of all sizes should by law have equal opportunities to participate in public procurement. Collaboration between SMEs and the public sector may also have several advantages. By contracting with SMEs public procurers may, for example, gain increased innovativeness, encourage entrepreneurship, and contribute to both job creation and economic development (Reed et al. 2004). More active participation by SMEs would also increase competition which is one of the main objectives of public procurement and guarantee that the procurer will not be dependent on a few large companies only.

Public organizations may also benefit directly from contracting with SMEs. SMEs are generally expected to be more innovative and more flexible than large companies, and to respond more quickly to environmental changes (Blomqvist et al. 2005; Karjalainen and Kempainen 2008). Thus, SMEs could be flexible, innovative and efficient partners for public organizations, enabling more efficient use of public funds and better service for citizens. SMEs, in turn, could gain a solid partner and an important reference for future.

1.2 Research problem and objectives

The topic of this thesis is the formation of a successful contractual relationship between small service providers and public organizations in Finland. The study aims to find out why it may be challenging for small service providers to become suppliers for the public sector and, on the other hand, what factors may promote small companies' participation and ultimate success. Thus, both barriers and enablers for the formation of a successful contractual relationship are investigated. In order to do that, the study defines the concept of "a successful contractual relationship" and the elements and determinants of a successful relationship in the context of public procurement. In this study contractual relationship is defined as a legal relationship between a procurer and a supplier evidenced by a contract.

Former research has already recognized some challenges SMEs face during the public procurement process, most of which are somehow resource related (GHK 2010; Fee et al. 2002; Karjalainen and Kempainen 2008). Based on the existing research, I will aggregate the obstacles and challenges small businesses are argued to face. Based on the empirical data, I will then complement and test the list. Barriers and enablers are examined from small businesses' perspective.

The study divides the public procurement process into three phases: planning and preparation, competitive tendering, and contract implementation and follow-up (Figure 1). These phases are explained in more detail in part three of this study. Critical factors affecting the formation of a contractual relationship in each phase of the process are investigated.

Thus, the final goal is a successful relationship during the contract implementation and follow-up phase but, in order to achieve it, success in all three phases is needed.

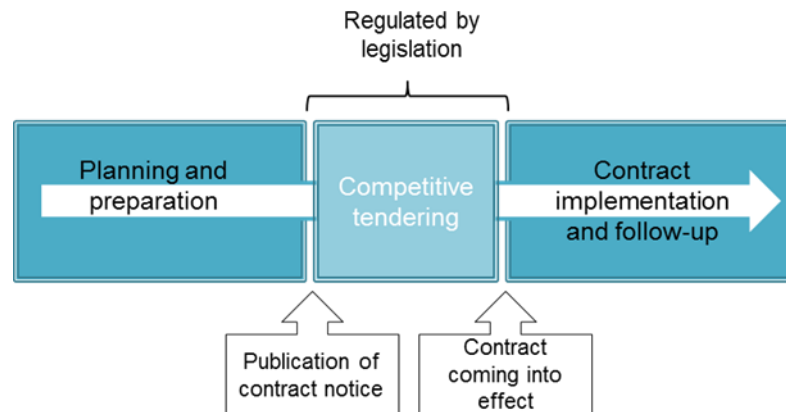


Figure 1: Three phases of the public procurement process (adapted from Koskelainen et al. 2012)

To begin with, small businesses have to be willing to take part in public tendering (*planning and preparation phase*). In this phase, the objective is to find out which factors make public tendering attractive in the first place or why small businesses decide not to participate. In the next phase (*competitive tendering*), the aim is to recognize the reasons behind small businesses' successes or failures in competitive tendering. Finally, factors that affect the performance and success of small businesses during the actual contractual relationship (*contract implementation and follow-up*) are investigated.

Specifically, the research questions of the present study are:

- 1. What are the elements and determinants of a successful contractual relationship in public service procurement?**
- 2. What factors inhibit or promote the formation of a successful contractual relationship between small service providers and public procurers?**

The research questions will be answered based on both literature review and empirical research conducted in this thesis. The first question will be answered mainly based on literature review, whereas the second question will be answered mainly based on empirical findings.

1.3 Scope of the study

The focus of the study will be on small and micro-sized service providers. This focus is chosen since knowledge related to small businesses' involvement in public procurement is limited despite their great economic impact. Since medium-sized companies do not seem to be unreasonably under-represented in public procurement (GHK 2010), I will focus on small

and micro-sized companies with less than 50 employees. I will study the topic from the private organizations' point of view because earlier research has focused on the procurer's perspective. The study aims to make recommendations directly to businesses rather than to procurers. End users are left outside the scope of this study. Even though end users may play a very important role in service delivery, the procurer is ultimately the supplier's customer. The procurer buys and defines the service and the supplier is mainly responsible to the procurer.

The study focuses on service procurement which differs from purchasing of goods. Features of goods can often be found in services but, in addition, services have their own characteristics not found in goods. The contents and the quality of intangible services may sometimes be difficult to define, making them a more interesting research object. Service delivery is also a continuous process, meaning that the role of a contractual relationship is emphasized.

The context of the study is public procurement but the study will specifically focus on municipalities. When discussing the legal framework and procurement procedures, I will discuss public procurement more generally since legislation is the same for all public organizations. However, most of the empirical material is gathered in municipal context and because the public sector consists of many different types of players, analyzing the public sector as a whole would not be expedient.

The study is limited to cover only open procedure procurement which is numerically the most often used procedure in public procurement (Karinkanta et al. 2012, p.69). This limitation is made since all the interview material is deliberately gathered in the context of a case study concerning open procedure procurement processes. Open procedure is typically used in standard, not too complex, every-day procurements which are objects of interest in this study as well. The specific tender procedure chosen, however, does not seem to have a clear impact on the opportunities of SMEs (GHK 2010) and, therefore, the results of this study may cautiously be applied to other tender procedures, too.

1.4 Research methodology

The research was conducted in the context of two parallel projects in the SimLab research unit at Aalto University School of Science, Department of Industrial Engineering and Management. Data collection and analysis methods used in the study are qualitative, including semi-structured theme interviews, observations of simulation process, group discussions and workshops, and textual analysis of transcribed interviews and discussions. The research process actually began already in the fall 2011 when interviews were conducted

in the context of a case study which consisted of two procurement processes of a large municipality in Finland.

Based on this initial data, a gap in current research was defined and research questions for the thesis were formed. Also an initial framework for barriers and enablers to SMEs' participation in public procurement was created based on the interviews. The framework was then tested and modified based on additional empirical data gathered in a workshop in the spring 2013. Methodology is discussed in more detail in part two.

The theoretical framework for the research is based on literature review which was conducted simultaneously with the analysis of empirical material. I will use previous research related to public procurement, SMEs, and contracting as a basis for my study. Since research concerning buyer-supplier relationships in public procurement is quite limited, I will apply some theories from the private sector to my study as well. The progress of literature review is demonstrated more specifically in the beginning of part three.

1.5 Structure of the thesis

The thesis is organized into six main parts (Figure 2). After the introduction I will discuss the research process and the methodology used in the study. In part three I will present the progression and findings of the literature review, forming a theoretical basis for the thesis. Part four is about presenting empirical findings, and in the fifth part the findings of the empirical study and the literature review will be combined and discussed. Finally, in part six I will sum up the study and outline the results and conclusions of the study.

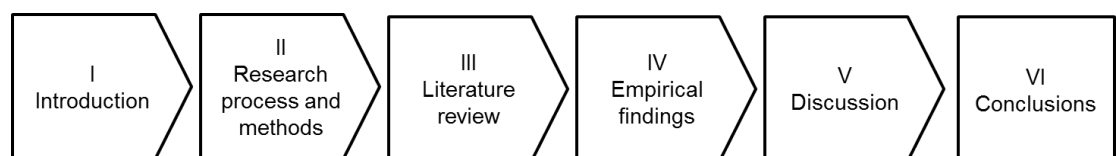


Figure 2: Structure of the thesis

Part II: Research process and methods

In this chapter a description of the research process and methodology is given. I will shortly discuss the principles of qualitative research in general as well as the logic of abductive reasoning. Finally, I will give a detailed description of the data collection and analysis methods.

2.1 Research process

The study was conducted in the context of two parallel projects in the SimLab research unit at Aalto University School of Science, Department of Industrial Engineering and Management. The research process began already in the fall 2011 when all the interviews were conducted. Back then I was working on the PRO2ACT project (*Proactive Contracting Processes in Public Procurement – Promoters for Partnership and Co-innovation*) which studied and developed municipal procurement contracting processes.

In PRO2ACT, I worked on a developmental process simulation project which was conducted in collaboration with a large Finnish municipality (The Municipality from now on) with 250 000 inhabitants. The simulation project consisted of two procurement cases: cleaning service procurement process and construction work procurement process of The Municipality. Even though construction cannot be labeled as a pure service, it has several service-like characteristics; construction is a continuous process requiring constant collaboration between contractual parties and many construction companies also do planning and design projects. The simulation project climaxed with a simulation day during which municipal officials and suppliers together discussed the challenges of the procurement processes with the help of visualized process models.

In PRO2ACT, both municipal officials and service providers were included but the focus was on the procurer's perspective. However, during the project the topic of SMEs and their role in public procurement emerged time after time and I realized that there is a gap in current research. Not until a year later, at the end of the year 2012, I started to focus on the topic of this thesis. The thesis is part of the VISO project (*Visualized Boundary Objects for Public Procurement Contracting*) which aims to open up novel approaches to public procurement contracting by searching directions for the creation of new kinds of procurement environments. One of the main objectives of the VISO project is to identify the nature of challenges in SME and public procurer collaboration. This thesis aims to provide answers to this specific question.

Based on the existing interview and simulation day data, collected during the PRO2ACT project, I formed the research questions for the thesis. After that I conducted the literature review, forming the theoretical basis for my study. I also established a preliminary framework for the barriers and enablers of a successful contractual relationship between SMEs and public procurers. Additional empirical data was gathered in a workshop in April 2013 in which eight business representatives participated. Based on the workshop data, the initial framework was modified. Finally, answers to the research questions were given using both empirical findings and findings of the literature review.

The progress of the research is illustrated in Figure 3.

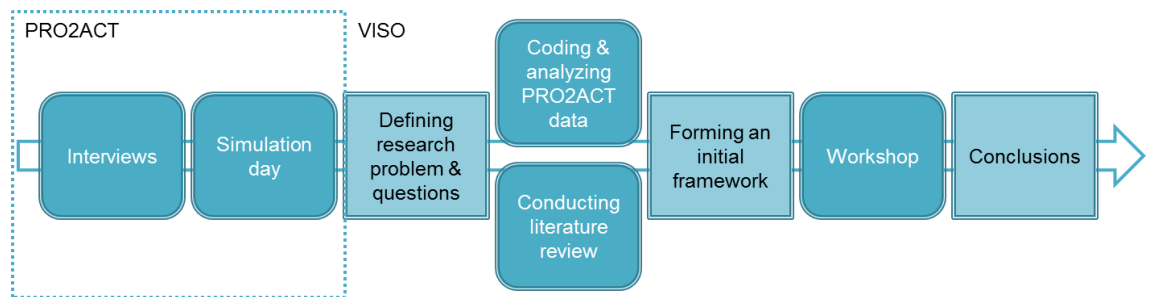


Figure 3: The research process

2.2 Qualitative research approach

This study is conducted by using qualitative methods. Qualitative research is non-statistical, multi-method research, studying phenomena in the environments in which they naturally occur (Gephart 2004). Qualitative research is used when there is a desire to understand the world from the perspectives of those studied and to examine and articulate processes. In doing so, discoveries contributing to the development of empirical knowledge can be made. (Corbin and Strauss 2008; Grönfors 2008; Pratt 2009)

Qualitative data are usually collected using one or more research approaches, including case studies, interviews, observation, and textual analysis (Gephart 2004). In this study interviews and observation of process simulation and group discussions were the main data collection methods. Since the majority of the data was gathered in a case study during the PRO2ACT project, principles of case study research will be next discussed shortly.

2.2.1 Case study

The interview material of this study was gathered in the context of a case study. Case study is a research strategy focusing on understanding the dynamics present within single settings. Case studies involve either single or multiple cases and they typically combine several data collection methods. Theory developed from case study research is likely to have strengths

like novelty, testability, and empirical validity, arising from the close linkage with empirical evidence. Case study is particularly suitable in research areas for which existing theory seems inadequate, just like in this study. (Eisenhardt 1989) One challenge in case study research is the selection of cases. Multiple cases typically yield more robust, generalizable, and testable theory than single-case research (Eisenhardt and Graebner 2007).

Case studies can be used to accomplish several goals. They can provide description and test or generate theory (Eisenhardt 1989). In this thesis the aim is to describe what factors promote and inhibit small business participation in public procurement and, on the other hand, also generate a tentative theory about the elements and determinants of a successful contractual relationship in the context of public procurement.

2.2.2 Literature review

The objectives of the literature review were to clarify the context of the study and to find out what has been studied earlier. In order to consider a broad range of literature, no limitations for example to the journals selected were done. According to Eisenhardt (1989) the comparison of the emergent theory with the extant literature is essential in theory building and in research in general. Ignoring previous conflicting research reduces the confidence in findings. Conflicting literature may also encourage more creative thinking and reasoning. Literature discussing similar findings is important as well because it ties together underlying similarities in phenomena normally not associated with each other. The result may be a theory with stronger validity, wider generalizability, and higher conceptual level. (Eisenhardt 1989)

Both conflicting and supporting material with the empirical findings was found. Some of the barriers identified in previous research were confirmed in this study and in addition new barriers and enablers were found. Both conflicting and supporting material related to the success of a relationship was also found. The literature review was conducted after the majority of data was gathered and analyzed and, therefore, previous findings did not affect the progress of empirical research. The progress of literature review is discussed more specifically in the beginning of part three.

2.2.3 Abductive reasoning

Scientific reasoning commonly used in case studies and also in this study is called *abduction* (Kovács and Spens 2005). Abductive reasoning, originally represented by Charles Peirce, is a third form of scientific reasoning in addition to *induction* and *deduction*. In abduction, new theories are not formed by perceptions only like in induction but there is some kind of

guiding principle that directs the research. This principle may be derived from previous theories or with pure intuition. (Grönfors 2008)

While deduction draws conclusions about the particular based on the general and induction moves from the particular to the general, in abduction one begins with the rule and the observation, inferring the explanation if it accounts for the observation in light of the rule (Mantere and Ketokivi 2013). In other words, abduction can be understood as inference to the best explanation. It begins with an incomplete set of observations and proceeds to the most feasible explanation. The abductive approach is fruitful when the objective of the research is to discover new things (Dubois and Gadde 2002), which is why it is particularly suitable in this study as well.

The objectives of the three reasoning approaches are different. Inductive and abductive approaches both aim at theory development while deduction is more about testing and evaluating existing theory. Induction aims at generalizing findings from empirical data, whereas abduction is more about developing an understanding of a new phenomenon. (Kovács and Spens 2005) In this study no generalizations are meant to be made but the goal is to understand the relationship between small businesses and public procurers more clearly. Abductive research proceeds with the constant interplay between theory and empirical study. The process of abductive research is illustrated in Figure 4.

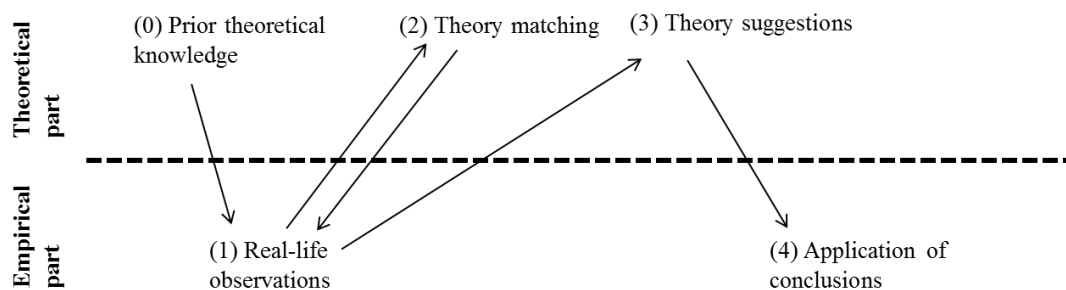


Figure 4: Abductive research process (adapted from Kovács and Spens 2005)

This study followed the model of Kovács and Spens (2005) but the process was less linear (Figure 5).

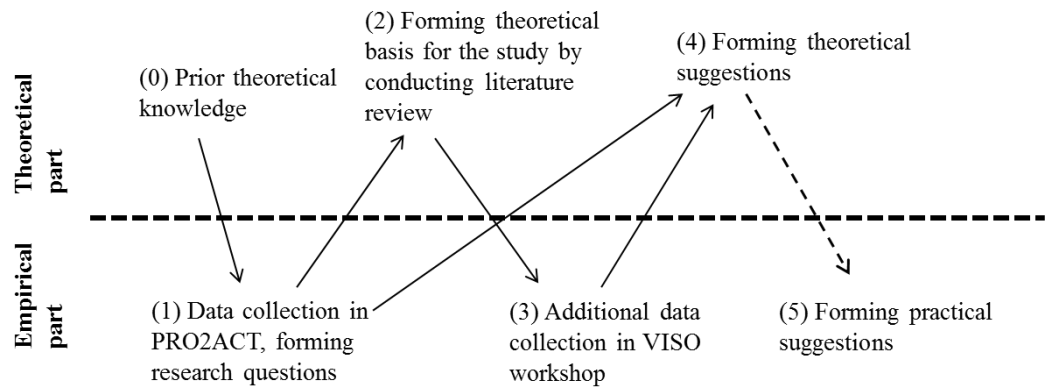


Figure 5: Abductive research process in this study

2.3 Data collection and analysis methods

The data collection methods used in this study are semi-structured theme interviews and observations of group discussions and future workshop. A description of each is given next. Most of the empirical data was collected during a case study and the progress of the case study is also shortly described.

2.3.1 Description of the case study

In this study, most of the empirical material was collected in the context of a case study during the PRO2ACT project. The study was conducted in the fall 2011. The case study was a developmental process simulation project and consisted of two procurement processes of The Municipality, taking place in the year 2011. The studied procurement processes were intentionally selected to represent the different distribution of work as well as diverse subjects of procurement. The procurement processes concerned procurement of cleaning service and a building contract concerning the renovation of a school yard. The aim of the simulation project was to identify challenges in the procurement processes of The Municipality and to find solutions to these challenges. The simulation project climaxed with a simulation day during which municipal officials and suppliers together discussed the challenges of the procurement processes with the help of visualized process models.

The case study was carried out by using qualitative data collection and analysis methods, including semi-structured interviews with representatives of The Municipality and companies, as well as observation of process simulation and group discussions during the simulation day. The data was complimented by both internal and public documents concerning the procurement processes of The Municipality, such as contract notices, invitations to tender, tenders, and contracts.

2.3.2 Interviews and simulation day

The main source of empirical data was semi-structured face-to-face interviews. Interview is one of the most common and most powerful tools of qualitative research. Its strengths are flexibility and richness of communication. Interviewing was a self-evident choice since the questions to which answers were wanted were mainly open. The topic was also rather sensitive to some informants and in face-to-face interviews people are usually more willing to share their experiences than for example in anonymous questionnaires. (Gillham 2010, p.62) The interview questions can be found in Appendix I.

Interviews were conducted in the fall 2011 over a period of two months in the context of a case study during PRO2ACT project. In total, 35 persons were interviewed (Table 1). Interviews typically lasted 60-120 minutes. All interviews were tape-recorded and transcribed and at least two researchers were present in each interview, one handling the questions and another recording notes and observations.

Table 1: Interviews

Party	Number of interviews	Share of SMEs
Municipal officials	22	-
Private organizations	11	5
End users	2	-
Total	35	5

Because the PRO2ACT project focused on procurer's operations, the majority of the interviewees were municipal officials. Altogether 22 persons from the procurement center of The Municipality, from the departments responsible for cleaning services and construction works, and from other departments were interviewed. In addition, five persons from three different cleaning organizations and six persons from six different planning and construction companies were interviewed. One of the cleaning companies and four of the planning and construction companies could be included in the category of small enterprises (less than 50 employees) and the rest were large (more than 250 employees). This allowed for comparison between companies of different sizes. At the time of the interviews all organizations were under contract with The Municipality. Interviewees included CEOs, service managers, constructors, and persons from sales departments. Also two end user representatives were interviewed.

The case study of PRO2ACT project culminated in a simulation day in the end of November 2011. During the simulation day two procurement processes of The Municipality were

simulated and discussed, and both municipal officials and private organization representatives participated (Table 2). Discussions were facilitated by PRO2ACT researchers. The program of the simulation day can be found in Appendix II. Process simulations and group discussions were videotaped and workshops tape-recorded.

Table 2: Participants in the simulation day

Party	Number of participants	Share of SMEs
Municipal officials	25	-
Private organizations	9	4
Other	2	-
Total	36	4

Coding and analysis of the interview data

The analysis of qualitative data combines analysis and synthesis. Data is first broken into conceptual pieces and then through synthesis reassembled into scientific conclusions (Grönfors 2008). I had some familiarity with the empirical material since I had personally been present in the simulation day and in the majority of interviews. I was also able to listen to the original interview tapes and watch the original simulation day videos in order to get a better and more holistic picture of the data.

The interview and simulation day transcriptions were first read through and all parts referring to challenges or successes in a procurement process, as well as comments related to SMEs, were marked. Then an initial framework for the barriers and enablers to SME participation in public procurement was sketched. Barriers and enablers were categorized according to the three phases of the procurement process (planning and preparation, competitive tendering, and contract implementation and follow-up).

After the first round all the material was read through again and enablers and barriers were coded with the ATLAS.ti software. During the second round some of the initial barriers and enablers were removed or combined and also new factors were discovered. Each text sample marked was categorized either as a barrier or an enabler. It was also marked in which phase of the procurement process a barrier or an enabler occurs. Finally, all text samples were grouped under umbrella terms, such as “*lack of interaction and market dialogue*”, “*selection criteria*” and “*knowledge sharing and interaction*”. Thus, categories were determined as the study progressed. Examples of the categorization can be found in Table 3.

Table 3: Examples of the categorization of interviews

Text example	Category	Enabler or barrier	Phase
<i>"Communication before the competitive tendering is quite minimal." (municipal official)</i>	Lack of interaction and market dialogue	Barrier	Planning
<i>"The scoring is always a lottery. In one tendering we may have got full scores, and in another we get very low scores with the same papers. It is not objective." (large service provider)</i>	Selection criteria	Barrier	Tendering
<i>"With company X, we have these meetings, it's their initiative. We discuss all the current issues and I think that it has eased collaboration." (municipal official)</i>	Knowledge sharing and interaction	Enabler	Contract implementation

Based on the analysis as described above, an initial framework for the barriers and enablers of a successful contractual relationship was drafted. However, since this initial framework was drafted based on somewhat limited data, it was complemented with workshop data in order to achieve a more reliable and broader view.

2.3.3 Observation of future workshop

Additional empirical data was gathered in a half-day workshop in April 2013. The workshop was part of the VISO project and was directed mainly to SME representatives. During the workshop, participants shared experiences from public procurement and created a good, idealistic future procurement environment in small groups with one researcher facilitating each group. The program of the workshop can be found in Appendix III.

The objective of the workshop was to gather as heterogeneous a group as possible in order to get opinions and experiences from various industries. Thus, no limitations for the participants' backgrounds were set. Invitations were sent via project steering group members and the project's mailing list. Finally eight business representatives from various fields participated. Six of the participants were from private companies and four of them could be included in the category of SMEs. Two participants were from unions representing small organizations. (Table 4) Some participants had experience in public procurement and some did not.

Table 4: Participants in future workshop

Party	Number of participants	Share of SMEs
Private organizations	6	4
Unions	2	-
Total	8	4

Most of the workshop program consisted of rather informal discussions. Group exercises were not very strictly facilitated and participants were allowed to freely share experiences. The small amount of participants ensured that the atmosphere remained casual and people expressed their opinions openly.

Coding and analysis of the workshop data

The workshop was videotaped and tape-recorded. Most of the workshop data was in the form of group discussions which were transcribed, read through, and analyzed in the same way as the interview data.

2.3.4 Overview of research methods and data

The total number of informants from the interviews, the simulation day, and the workshop is displayed in Table 5. Some people were present in both the simulation day and the interviews but they have been taken into account only once. Thus, informants in Table 5 are all separate individuals. Informants in the category “other” are representatives of end users and different unions.

Table 5: Total number of informants

Party	Number of informants	Share of SMEs
Municipal officials	33	-
Private organization	21	11
Other	5	-
Total	59	11

In total, 59 persons were heard. The majority of them were municipal officials but also 21 business representatives were included. Eleven of the private organization representatives were from SMEs, and in total the data includes interviews and recordings from representatives of 10 different SMEs. Thus, the data set is quite large. However, it must be noted that some informants were able to express their opinions and views more widely than others. In the interviews, the informants had more time, and in a personal interview it is also easier to express one’s views than in large group discussions.

Part III: Literature review

In this chapter the literature review for the research is discussed. The progress of the review is first explained and the actual content is divided into three sections (Figure 6). First I will describe the principles of public service procurement, forming a basis and context for this study. Second, I will discuss SMEs and their role in public procurement, as well as their possible strengths and weaknesses as suppliers. In addition, the previously identified problems faced by SMEs in public procurement will be listed. Finally, since the study concerns successful contractual relationships, contracting literature is looked over and a definition, as well as prerequisites for a successful contractual relationship in the context of public procurement is proposed. At the end of this chapter, I will sum up the findings and form a theoretical basis for my study.

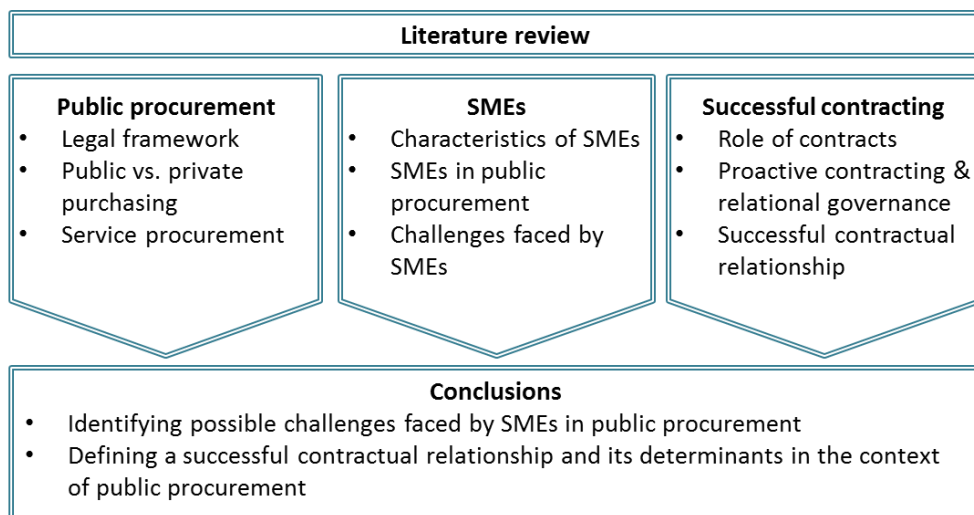


Figure 6: Contents of literature review

3.1 The progress of literature review

Literature review material consists of academic journals and previous studies as well as some non-scientific reports concerning public procurement and SMEs. I also explored some juridical literature in order to form a consistent image of the legal framework. I started the review by sifting through certain academic databases such as EBSCO Business Source Complete, ScienceDirect, JSTOR, and IEEE Xplore using pre-defined keywords. Based on the abstracts and conclusions, the most relevant papers were selected and read through. More material was searched based on promising papers' bibliographies. No limitations to the journals to be used were set because the study combines themes from various disciplines, such as marketing, management, contracting, and jurisprudence.

Material was searched using the following keywords and their combinations:

- Public procurement / public outsourcing / public tendering
- Contracting / contracts
- Service procurement
- SMEs / small- and medium-sized enterprises / small business
- Partnership quality / relationship quality / relationship value
- Buyer-supplier relationship / contractual relationship

3.2 Public procurement

This subchapter introduces the principles and the legal framework of public service procurement. From the point of view of this study, understanding the Finnish Act on Public Contracts is important because it may affect and regulate the formation of relationships between municipalities and suppliers. Compared with the private sector which is not controlled by the same legislation, public procurement process differs in several ways. In this subchapter *Yrityksen hankintaopas (A procurement handbook for businesses, in Finnish)* (Karinkanta et al. 2012) has been used as a general source material.

3.2.1 Principles of public procurement

Public procurement means procurement of goods, services and works on behalf of a public authority. Public institutions include for example state and municipal authorities, joint municipal authorities, and state enterprises. In this thesis the focus is on municipal procurement.

In terms of national economy the share of public procurement is high. In 2010 the amount of public procurements in Finland was approximately 35 billion euros, representing 19.4 per cent share of GDP (European Commission 2011). There is no accurate statistical information about municipal procurements; however, they account for a significant share of the total amount of public procurements in Finland (Lith 2012). Services account for a remarkable share and the amount of purchased services is increasing rapidly in almost all sectors within Finnish municipalities (Lith 2011).

The present study is limited to cover only open procedure tendering which must be primarily used and which is numerically the most often used procedure (Karinkanta et al. 2012, p.69). Open procedure is applied to standard, every-day procurements and it is a simple, easy to use procedure. In open procedure procurement, the procurer publishes a contract notice and all interested suppliers may submit a tender. In addition, the procurer may also send invitations to tender to suppliers which it deems appropriate. There are also other procurement

procedures, such as restricted procedure and negotiated procedure, but they will not be the focus of this study. However, since the specific tender procedure chosen does not seem to have a clear impact on the opportunities of SMEs (GHK 2010), the results of this study may be cautiously applied to other tendering procedures as well.

The public procurement process is in this study divided into three phases: planning and preparation, competitive tendering, and contract implementation and follow-up (Figure 7). The term contractual relationship refers to the relationship between the procurer and the service provider, starting from the signing of a contract and ending when the contract expires. However, since this relationship is not possible without the planning and tendering phases, they are of interest in this study as well. Also, the relationship does not necessarily end when the contract expires but there might be some duties afterwards.

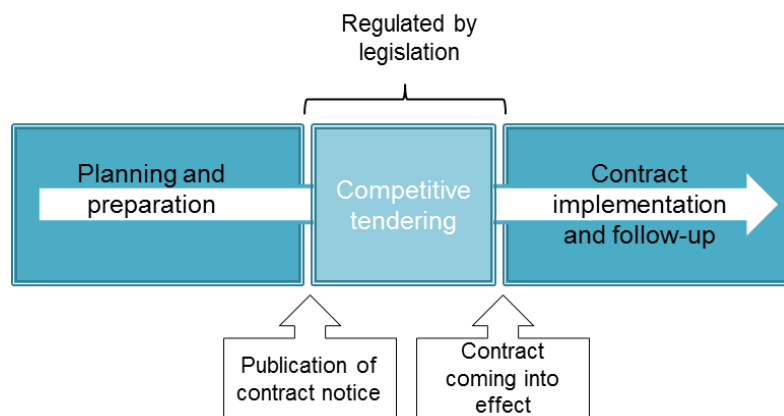


Figure 7: Three phases of the public procurement process (adapted from Koskelainen et al. 2012)

Procurement starts with the planning and preparation phase, including the determination of the buyer's needs and initial investigation of the market. This phase may include some kind of market dialogue which aims to increase the procurer's knowledge about the solutions and services available in the market. At the same time potential suppliers gain information about the procurer's needs and plans. In this thesis the term "market dialogue" refers to all interaction taking place between the procurer and the markets before the tendering phase.

Public organizations must make their purchases as public and transparent as possible. In other words, when public organizations are about to procure something, they have to announce their intentions to purchase. In practice this means that a contract notice has to be

published in official channels, either in HILMA¹ or in TED². The announcement of a contract notice is the starting point for the official competitive tendering phase. During the competitive tendering, suppliers have the opportunity to ask questions. The procurer then answers them publicly, for example on the internet. Finally tenders are sent in to be evaluated based on pre-defined selection criteria. The contract shall be awarded to the tenderer whose tender is economically the most advantageous or has the lowest price. The official tendering phase is the most regulated part of the process and during it the operations of suppliers are mainly driven by tendering documents (Lundström 2011).

Finally, the tendering phase leads to the contracting and contract implementation phase, meaning the beginning of service delivery and the actual contractual relationship with the winning supplier. This phase may include different kinds of follow-up and monitoring mechanisms depending on the object of procurement. Contracts may be either fixed-term or open-ended but not eternal, since a new tendering must be organized at some point. This might sometimes be problematic since there is no common interpretation of how long the contract can actually be. Legislation restricts only the length of framework agreements.

3.2.2 Public procurement legislation

Public procurement differs from private purchasing in terms of legislation. The objective of public procurement regulation is to ensure that public funds are used effectively and that all tenderers are treated in a fair and non-discriminatory manner. Essentially, tendering gives all potential suppliers a possibility to compete for the right to produce public services. The general principles of public procurement are competition, equal treatment and non-discrimination, transparency, and proportionality. These principles concern not only the competitive tendering phase but the procurement process as a whole.

The Act on Public Contracts is the main law regulating public procurement in Finland. The act is based on EU directives on public procurement which, in turn, are based on the World Trade Organization's government procurement agreement (GPA). GPA aims to promote the liberalization of world trade in public procurement. The Act on Public Contracts is applied when procurement exceeds a certain threshold value (Table 6). (Directive 2004/18/EC)

¹ HILMA is the official web-based notification channel administered by the Ministry of Employment and Economy in Finland, in which procuring entities have to publish their contract notices exceeding the national thresholds.

² Tenders Electronic Daily (TED) database is the online version of the Supplement to the Official Journal of the European Union, dedicated to European public procurement. Purchases above the EU-thresholds are announced in TED.

There are some exclusions to the legislation, such as defense contracts, but they are not of interest in this study.

Table 6: National and EU-level thresholds for public procurement (Directive 2004/18/EC)

	National	EU
Goods and services, design contests	30 000 €	130 000 € (Central Government authorities), 200 000 € (Sub-central contracting authorities)
Works	150 000 €	5 000 000 €

Threshold value means a maximum estimated value of a single acquisition. Estimated value defines which procedure is used: national or EU. When the value exceeds the national threshold, competitive tendering becomes obligatory and a contract notice must be published. When the EU threshold is exceeded, a contract notice must be published at EU level. Minor contracts with the value under the thresholds can be done without competitive tendering.

Practically, the law only regulates the tendering process, not planning and contract phases or the content of procurements. Legislation does not limit the length of contracts either. The general principles of public procurement, however, concern the whole procurement process and may influence activities outside the official competitive tendering as well. Obligations and regulations are imposed mainly on contracting entities rather than tenderers but success in competitive tendering often requires that the tenderer, too, is familiar with procurement principles and procedures.

3.2.3 Public procurement vs. private purchasing

Differences especially at the operational level exist between public and private organizations that may affect the formation of buyer-supplier relationships. Differences relate to organizations' goals and objectives, operating cycles, management styles, organizational structures, customers and other stakeholders, and, of course, procurement procedures (Arlbjørn and Freytag 2012). Also the goals of public purchasing may be different from those in the private sector. In the public sector the goals may be wider, including for example fairness, equality, democracy, accountability, efficiency, and competitiveness (Purchase et al. 2009; Wang and Bunn 2004).

A major difference between private and public organizations is that legislation forces public organizations to use competitive tendering when procurement exceeds a certain threshold, whereas the private sector is free to choose its suppliers. Thus, public procurement process has a greater degree of formalization, which suppliers may consider difficult (Purchase et al. 2009).

One problematic characteristic of public procurement is that contracts cannot be substantially modified after they have come into force. If problems or defects occur during the contractual relationship, no major changes to the contents of the contract can be made but a new tendering must be organized. Thus, the cost of an unsuccessful relationship may be high. In the private sector procedures are more permissive.

In order to give all potential suppliers an equal opportunity of being awarded the contract, previous experience is prevented from affecting the selection of suppliers in public procurement. Private organizations have more freedom to build partnerships with their suppliers because of fewer regulations. Because previous experience and common history may play an important role in the private sector, small and young companies may actually have better opportunities to succeed in the public sector.

Public organizations are often more budget driven, the budget determining what is procured and especially when (Telgen et al. 2007, p.18). Also the certainty and continuity of service delivery may be emphasized in public sector procurement, because the public sector has an obligation to deliver certain services. Public organizations may also have to take into account more stakeholders than any private organization (Murray 1999), including for example politicians and citizens. Public organizations' task is to serve the public interest and purchases are made to execute social-economic policies (Wang and Bunn 2004). Thus, the objectives of the public sector may be wider than a single company's profit.

Thus, a different relationship between the buyer and the supplier may be expected compared to the private sector. Differences between public and private buying have been gathered in Table 7.

Table 7: Differences in public and private buying

	Public buying	Private buying
Objectives of buying	Support the functions of service agencies, execute social-economic policies	Profit maximization, good services, etc.
Vendor choice criteria	Based on competition, efficiency, fairness and openness	Flexible criteria
Information disclosure	Transparency is required	No transparency is required
Procurement procedures	Rooted in legislation	More freely chosen procedures
Stakeholders	Contractual partners, citizens, politicians etc.	Contractual partners, owners etc.

3.2.4 Service procurement

Services can be described through four key characteristics: intangibility, inseparability, heterogeneity, and perishability. Services are not tangible like goods but more like performances or processes (Shostack 1987). Whereas goods are first produced, then sold and then consumed, services are first sold, then produced and consumed, often simultaneously. Heterogeneity refers to the potential for high variability in the performance of services. The quality and essence of a service can vary depending on producer, customer, time, or other variable. The fourth characteristic, perishability, means that a service cannot be saved or stored. (Grover et al. 1996; Lindberg and Nordin 2008; Zeithaml et al. 1985)

Service procurement differs from the procurement of goods. In reality, many services may include goods but, in addition, they also include processes and people. Difficulties may arise because every service must be objectified at some point in order to make it exchangeable, and due to the intangibility of services it may be challenging to define the desired outcome. The content of the desired service must be determined in the beginning of the procurement process by the procurer. Based on this description, suppliers form an image of the desired service. (Lindberg and Nordin 2008)

In contrast with goods procurement, the quality of the service cannot be discovered until in the contract implementation phase; in the tendering phase, the quality of a service is solely the buyer's perception of the promises made by the vendor. Similarly, in the contract implementation phase problems related to quality monitoring may occur. The assessment of the quality may require subjective judgment rather than mere accumulation of facts; what constitutes a high standard of service may vary from one observer to another (Domberger and Jensen 1997). The process of service delivery itself is important as well, not only the final outcome of the service.

In service procurement the buyer and the end user often are different parties and end users participate in the delivery process. Usually the needs of citizens are the starting point for procurement but it is municipal officials who then define the actual contents of services. This may be challenging for quality assessment and buyer-supplier interaction; is it the buyer or the end user who defines the level of quality and with whom should the supplier communicate? In this thesis it has been chosen to focus on the procurer-supplier relationship, leaving end users outside the scope.

Due to the characteristics of services discussed above, service procurement is often more complex than purchase of goods. The role of a successful relationship is emphasized in service procurement since service delivery is a continuous process and may require constant

interaction between the municipality and the supplier, whereas purchase of goods may consist of only one single transaction. Thus, a different relationship may be expected in service procurement than in purchase of goods. The main differences between goods and service procurement are outlined in Table 8.

Table 8: Differences between goods and service procurement

	Goods procurement	Service procurement
Time frame of delivery	Single transaction	Continuous process
Complexity of product	Lower	Higher
Process of delivery	Production → Selling → Consumption	Selling → Production & consumption simultaneously
Quality assessment	Rather objective	More subjective
Actors in delivery process	Supplier	Supplier, end-users, (procurer)

3.3 Small- and medium-sized enterprises

In this subchapter I will first present the definition and characteristics of small- and medium-sized enterprises (SMEs). I will also discuss why SMEs should be involved in public procurement in the first place. Finally, I will sift through existing literature concerning the challenges SMEs face during the public procurement process.

3.3.1 Definition and characteristics of SMEs

Following the recommendation of the European Commission (Commission recommendation 2003/361/EC), SMEs are here defined as businesses employing less than 250 people and having an annual turnover not exceeding 50 million euros or a balance sheet total not exceeding 43 million euros. When discussing SMEs, it must be noted that the term encompasses companies of very different sizes. Definitions are presented in Table 9.

Table 9: SME definition (Commission recommendation 2003/361/EC)

Company category	Employees	Turnover	OR	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

There is an enormous difference between a micro company with less than ten employees and a company employing over two hundred people. The latter may consist of several departments and have plenty of tendering expertise as well as their own lawyers while the former may be a family-owned business concentrating on the substance and lacking paper

work skills. Companies of different sizes also seem to perform differently in public procurement. Medium-sized companies do not seem to be unreasonably under-represented in public procurement but, on the other hand, the share of small and micro enterprises lags considerably behind their actual role in the real economy (GHK 2010). Therefore, the focus of this study is on small and micro enterprises.

Thus, problems and challenges faced by small- and micro-sized companies and, on the other hand, by medium-sized companies during the public procurement process may vary. As Nootboom (1993) argued, “*it is always a delicate matter to make general statements about SMEs, because their diversity may be their most important characteristic*”. However, some general assumptions about the differences between SMEs (less than 250 employees) and large organizations (more than 250 employees) may be done.

Large organizations are often described as bureaucratic and as more rigid than their smaller counterparts. Structurally, large organizations are more complex and they may have more established procedures and routines, which make them more inflexible and reluctant to change. (Haveman 1993) Generally it could be said that SMEs’ advantages are mostly behavioral, such as flexibility, motivation, lack of bureaucracy, and quicker response to changing demands. SMEs’ disadvantages, in turn, are often related to lack of resources, such as personnel and time. (Nootboom 1993; Lee et al. 1999)

In small firms the entrepreneur often participates intensively in day to day operations, having limited time for other tasks, such as administrative tasks. Based on empirical research, the level of training and education in smaller enterprises also tends to be lower than in large companies. Smaller firms seldom have specialized staff for finance, marketing, or legal affairs. (Nootboom 1993) Lack of time and tendering expertise may be significant barriers to participation in public procurement. Small firms may also lack a contracting culture, meaning that things are done informally (Blomqvist et al. 2005) and, therefore, collaboration with the public sector may be considered too formal and burdensome. From the procurer’s perspective, buying from small businesses might also be a greater risk than buying from larger firms with an established track record (Walker and Preuss 2008).

3.3.2 SMEs in public procurement

SMEs play an important economic role in many industrial countries (Walker and Preuss 2008) and their limited market access in public procurement is a recognized issue (GHK 2010). Encouraging SMEs’ participation in public procurement could generate a mutually beneficial situation for both procurers and SMEs, as well as for other stakeholders (Fee et al. 2002). By contracting with SMEs public organizations may, for example, foster

innovativeness, encourage entrepreneurship, and contribute to job creation and economic development (Reed et al. 2004; Walker and Preuss 2008).

SMEs, in turn, could invest and expand their operations while relying on public organizations. Public entities, including municipalities, have a duty to produce certain services regardless of for example economic conditions, which makes them stable partners (Purchase et al. 2009). Collaboration with the public sector may also be an important reference for future. Loader (2005) also recognized certainty of payment, speedier payment, and security over long term as benefits to SMEs supplying public sector organizations.

Public organizations, too, may benefit from contracting with SMEs. SMEs are expected to be more innovative and more flexible than larger companies, and to respond more quickly to changes. SMEs are argued to have a better client focus, meaning customized solutions and better quality. Because of lower hierarchy, personnel and management of SMEs are usually more accessible compared to large organizations, which makes communication easier. Active participation of SMEs also increases competition and guarantees that the procurer will not be dependent on a few large companies only. (Blomqvist et al. 2005; GHK 2010; Karjalainen and Kempainen 2008; Loader 2005; Reed et al. 2004; Walker and Preuss 2008)

Finally, SMEs are usually more closely located which, once again, speeds up communication and allows them to have a better understanding of the local context and the needs of the client (GHK 2010). Thus, SMEs could be flexible and efficient partners with innovative and tailor-made offerings, enabling a more effective use of public funds and better services to citizens.

3.3.3 Challenges faced by SMEs in public procurement

SMEs' poor performance in public procurement is a recognized issue and barriers discouraging SMEs from responding to tenders or even leading them to avoid public procurement have been identified in previous research. Some examples of these barriers recognized at the EU level are listed in Table 10. Most of the barriers are at least partly resource related, and the large size of the contracts is widely seen as the most important barrier to SMEs' access to public procurement. (GHK 2010)

Table 10: Barriers to SMEs' participation in public procurement at the EU level (GHK 2010)

– the large size of the contracts
– lack of knowledge about tender procedures
– difficulties in obtaining information
– too short time span to prepare the tender
– cost of preparing the tender
– too high administrative burdens
– unclear jargon used
– high qualification levels and required certification
– financial guarantees required

Previous academic literature has identified the same kind of obstacles faced by SMEs at national levels also. Obstacles can be roughly divided in three categories: tendering process, contract sizes, and inadequate information sharing. The tendering process may require a lot of time, tendering expertise, and other resources, all of which an SME may lack. Contracts may also be so large that SMEs' resources are not sufficient. Finally, SMEs may have problems in acquiring information about forthcoming contracts, as well as in marketing their own services and expertise to the public sector. (Fee et al. 2002; Karjalainen and Kempainen 2008; Loader 2005; Walker and Preuss 2008)

Based on the literature review, barriers to SMEs' participation in public procurement have been listed in more detail in Table 11. Barriers and challenges found in previous research have been divided in three categories, depending on the phase of the procurement process in which they occur.

Table 11: Barriers SMEs face in different phases of public procurement process

Planning and preparation	Competitive tendering	Contract implementation
Difficulties in establishing the appropriate person to contact	Difficulties in obtaining information about forthcoming tenders	
Inability to market products and services to public sector buyers	Lengthy and complex tendering process, lack of tendering expertise	
	Too short time span to prepare the tender	
	Cost of preparing the tender	
	High qualification levels and required certification, overly prescriptive requirements	
	Too much focus on cost	
	Large size of contracts	

As illustrated by the table above, the majority of the barriers recognized in previous research occur during the competitive tendering phase. In the planning and preparation phase, most challenges seem to relate to information sharing: information about forthcoming tenders and procurer's contact persons is not found. SMEs and their services also appear to be relatively unknown to public procurers. Challenges during the actual competitive tendering are mainly resource related. SMEs may not have time and other resources to draft a competent tender and they may also lack the legal skills needed. Selection criteria may not favor smaller suppliers either. No previous research related to challenges faced during the contract implementation phase was found.

Obviously, many of the challenges mentioned above are faced by both large and small companies but depending on the size of a company, the significance of the challenges may vary. SMEs may experience greater difficulties since they more often lack financial, personnel, and other resources to deal with the barriers (Cox 1994). It has also been speculated that the existence of the barriers faced by SMEs is more a perception than actual fact, meaning that SMEs only consider themselves to be disadvantaged, which may affect their willingness to participate in public procurement. (Loader 2005)

3.4 Successful contracting

In this subchapter the role of contracts and contracting is discussed, since they form a basis for the relationships in public procurement. Principles of proactive contracting and relational contracting may offer new perspectives for public contracts. Former research is applied to define the elements and determinants of successful contractual relationship in the context of public procurement.

3.4.1 Contracts

The term contract refers to both an agreement and the document recording the agreement. Contracting, in turn, refers to the process of forming an agreement, and managing, using, and implementing contracts. (Haapio 2008) Contracts play an important role in inter-organizational relationships in which collaboration and activities must be coordinated. The different functions of contracts are illustrated in Figure 8. Contracts define parties' responsibilities and roles, manage commitment, facilitate communication and motivation, share and manage risks, prevent problems and conflicts, and ultimately promote the success of a relationship (Camén et al. 2012; Haapio 2008).



Figure 8: Functions of contracts

In the public sector contracts are especially relevant since they are a prerequisite for the relationship created by public tendering (Camén et al. 2011). Contract is a starting point for the relationship. Camén et al. (2012) even argued that “*in the private sector the relationship forms the contract while in the public sector the contract forms the relationship.*” In the public sector contracts function as formalized directive tools governing the relationship and day-to-day interactions. Thus, the contract defines the success of the relationship at least to some extent, and if the contract is poorly drafted, it may lead to problems during the contractual relationship. This is especially relevant in the public sector because contracts cannot be modified after they come into force.

The process of contract preparation and negotiation is considered extremely important since it helps parties to notice issues that might cause problems later during the contractual relationship. Even though contracts cannot guarantee a successful collaboration, the contracting process may increase mutual understanding, promote learning, and build up trust. (Blomqvist et al. 2005) In the public sector, however, there is no negotiation process to the same extent as in the private sector. The procurer composes the contract unilaterally, being the more powerful party in the relationship (Camén et al. 2011; Roxenhall and Ghauri 2004). After the supplier has been selected, there is usually room for minor contractual adjustments only. This power asymmetry may affect the formation of a mutually satisfactory relationship.

3.4.2 Proactive contracting and relational contracting

Contracting and contracts are an important part of the public procurement process. The legal perspective is one important aspect of contracts, but not the only one (Koskelainen and Pohjonen 2013). *Proactive contracting* is a future and business target oriented approach to contracting where contracts are seen as business plans and as tools for collaboration. Contracts provide people in the contracting organizations crucial information for performing their work. Contracting is not only about creating legal contracts but also comprehensive collaboration between contractual parties throughout the whole procurement process, from the planning phase until practical implementation. In light of proactive contracting, the

public procurement process is seen as a collaborative process which creates conditions for successful procurement. One of the main goals of contracts is to create and maintain successful transactions and relationships. The object of procurement is the key issue and contracting is the tool by which the goals are achieved. (Berger-Walliser et al. 2011; Haapio 2006; Haapio 2008; Koskelainen et al. 2012; Pohjonen and Visuri 2008) Characteristics of proactive contracting are presented in Figure 9.

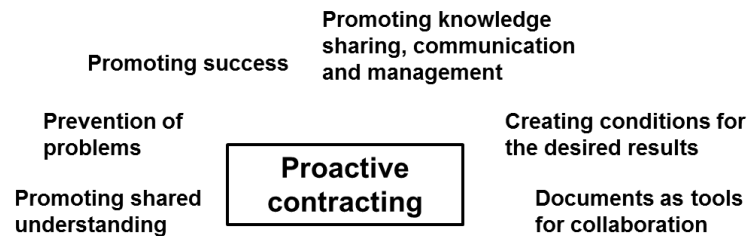


Figure 9: Characteristics of proactive contracting

Relational contracting approach, in turn, emphasizes the social relationship between contractual parties (Macneil 1980). Relational aspect is included also in the proactive contracting approach. It is argued that contracts are always somewhat incomplete because it is impossible to foresee all possible events that may affect the relationship in the future when drafting a contract (Blomqvist et al. 2005). Because of this unavoidable incompleteness of contracts, other relationship management mechanisms may be useful, too.

Some scholars view relational governance and formal contracts as substitutes; relational governance eliminates the need for formal contracts and vice versa, or formal contracts hinder the formation of relational governance (Dyer and Singh 1998; Gulati 1995; Larson 1992; Macaulay 1963). However, more recently others have argued that these two types of governance may actually work as complements (Blomqvist et al. 2005; Das and Teng 1998; Macneil 1980; Poppo and Zenger 2002).

The relationship between contractual and relational governance has been studied mainly in the private sector where practices and environments are different compared to the public sector as discussed earlier. However, Narayanan et al. (2007) argued that even though formal controls are necessary and dominant in public procurement for accountability and transparency reasons, informal controls may play an important role especially during the contract implementation phase. Trust between partners is seen as particularly beneficial in enhancing the quality of service provision and relationships in general.

In the private sector relationships may be already moving towards more cooperative partnerships, enabling the delivery of more complex solutions through collaboration and co-development (Lee and Kim 2005). If holistic solutions are objectives in the public sector,

too, traditional contract-based relationships may no longer be sufficient. Proactive contracting and relational contracting may offer new insights into public procurement, emphasizing the functionality of the contract and relational aspects alongside the formal contract.

3.4.3 Successful contractual relationship

In the context of this study, a contractual relationship is defined as a legal relationship between procurer and supplier evidenced by a contract. A contractual relationship officially starts when a contract is signed and ends when the contract expires. Thus, a contractual relationship refers to the relationship during the actual contract period. However, the formation of this relationship begins already in the planning and tendering phases of the procurement when interaction between the procurer and suppliers starts and the object of procurement is defined (Figure 10).

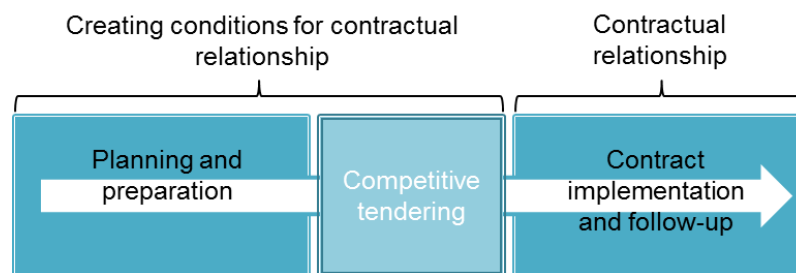


Figure 10: Contractual relationship

In order to find out which factors influence the success of contractual relationships in public procurement, a *successful contractual relationship* must be defined. Since relationships always require at least two parties, the success of a relationship is here defined from the perspectives of both the procurer and the supplier. The procurer and the supplier may have differing interests, incentives, and objectives (Bloomfield 2006). In addition, other stakeholders, such as citizens and politicians, have to be taken into account and because it is public funds that are used, certain effectiveness in general is expected. These other parties, however, are not within the scope of this study.

Buyer-supplier relationships in the private sector have been widely studied (e.g. Blumenberg et al. 2009; Dorsch et al. 1998; Dwyer et al. 1987; Ganesan 1994; Grover et al. 1996; Lee and Kim 1999; Lee 2001; Mohr and Spekman 1994; Ploetner and Ehret 2006), in marketing and management literature in particular. However, since the private sector differs from the public sector and since most of the former research concerns IT outsourcing, the findings of previous research cannot be directly applied to this study. So far buyer-supplier relationships

have been studied mainly from the buyer's perspective (Kim et al. 2010; Mao et al. 2008) and the findings of previous research may be somewhat unbalanced.

When it comes to former research, a variety of different terms related to relationship success without clear definitions exist. Some scholars discuss relationship quality, others outsourcing success or relationship value (e.g. Grover et al. 1996; Lee and Kim 1999; Naudé and Buttle 2000; Ulaga and Eggert 2006). In IT outsourcing literature which I mostly exploit, the terms partnership and relationship have been used interchangeably. In public procurement literature, however, the term partnership has a slightly different meaning. For example, Broadbent and Laughlin (2003) define public private partnership (PPP) as “*an approach to delivering public services that involves the private sector, but one that provides for a more direct control relationship between the public and private sector than would be achieved by a simple market-based and arms-length purchase*”. Thus, in this study the term relationship is deliberately used. Based on previous literature, the success of a relationship is understood to consist of two dimensions: *relationship value* and *relationship quality*. Their definitions are next formed.

Relationship value

Value can be defined as the trade-off between the benefits obtained and the sacrifices given in a market exchange (Ulaga and Eggert 2005). Thus, *relationship value* is the ratio of what you get relative to what you give. Some scholars use the term *relationship success* or *outsourcing success* to describe the final outcome of a relationship. For example Lee and Kim (1999) define outsourcing success as “*the level of fitness between the customer's requirements and the outsourcing outcomes*”. These terms, relationship success and relationship value, are closely linked. Both refer to outcomes and benefits achieved through the relationship. In this study the term *value* is used in order to emphasize the benefits gained by parties, whereas *success* refers more to the general outcome of a relationship.

Benefits can be divided along financial and non-financial dimensions (O'Toole and Donaldson 2002). Some scholars use the terms *business satisfaction* and *user satisfaction* (Lee and Kim 1999; Mohr and Spekman 1994). Business satisfaction refers to achieving strategic, economic, and technological benefits, whereas user satisfaction describes general satisfaction of stakeholders. (Grover et al. 1996) Walter et al. (2001) categorize the benefits obtained from a relationship into direct and indirect benefits. Direct benefits are received within the dyadic relationship and indirect benefits, in turn, have broader effects. In other words, direct benefits and business satisfaction refer to financial benefits, and indirect benefits and user satisfaction refer to non-financial benefits. Different categorizations of relationship value can be found in Table 12.

Table 12: Dimensions of relationship value

Dimensions of relationship value		
O'Toole and Donaldson 2002	- Financial dimension	- Non-financial dimension
Grover et al. 1996; Lee and Kim 1999; Mohr and Spekman 1994	- Business perspective - Strategic benefits - Economic benefits - Technological benefits	- User perspective
Purchase et al. 2009; Walter et al. 2001	- Direct benefits - Profit - Volume - Safeguard	- Indirect benefits - Innovation - Market - Scout - Access

It may be argued that all benefits are essentially financial. For example, non-financial or indirect benefits such as reference may lead to new contractual relationships which, in turn, result in financial benefits. High service quality may also be categorized on the non-financial dimension but it may also lead to cost savings since no reclamations arise. Categorization into financial and non-financial dimensions is, however, made since it emphasizes that some benefits are more direct and immediate, whereas others result in benefits in the future.

Hitherto, value has been investigated from two complementary perspectives. Previous research focuses either on the value a buyer receives or on the value a seller receives in a market exchange. (Ulaga and Eggert 2005) The majority of the previous research has studied the value of a relationship from the buyer's perspective only (Walter et al. 2001). In this study the aim is to combine both perspectives; after all, a relationship is only successful when both parties obtain value from it.

Thus, in a successful relationship the objectives of both parties are met. The public procurer aims at the most economically advantageous solution and one of the supplier's primary objectives as a company is to make profit. In addition, both parties may have other, non-financial goals. The procurer, for example, aims to maintain a certain service level. Suppliers, in turn, may aim to gain references and stable customers, or opportunities to develop and improve their services. Similarly, citizens, who are often the end users of services, have their own interests. Thus, a relationship may be valuable to citizens as well. I will use the term *relationship value* to describe these financial and non-financial benefits experienced by partners and other stakeholders.

Relationship quality

In addition to the high relationship value, in a successful relationship the relations themselves are good. According to the principles of relational contracting, functionality of

the relationship is a very important aspect in contracting. I will use the term *relationship quality* to describe the characteristics of the relationship itself. It could be speculated that relationship quality is actually relationship value since the characteristics of the relationship affect the value. However, in this study the functionality of the relationship is emphasized and these two terms, value and quality, are kept apart.

Johnson (1999) defines relationship quality as the overall depth and climate of the relationship. According to Lee and Kim (1999) high relationship quality, defined as “*how well the outcome of a partnership delivered matches the participant’s expectations*”, is a necessary condition for relationship success. However, high relationship quality alone cannot ensure the high value of a relationship. A relationship may be of high quality, collaboration and cooperation being successful but, for example, the financial objectives of the parties may not be met.

Many elements affecting the quality of a relationship have been identified in previous research (Table 13). Not all scholars use the term relationship quality but all refer more or less to the characteristics of a relationship affecting the final outcome of the relationship.

Table 13: Previous research related to elements of relationship quality

Publication	Elements of relationship quality
Mohr & Spekman 1994	<ul style="list-style-type: none"> – Commitment – Coordination – Trust
Morgan & Hunt 1994	<ul style="list-style-type: none"> – Commitment – Trust – Shared values – Communication – Relationship benefits – Termination costs
Grover et al. 1996	<ul style="list-style-type: none"> – Trust – Cooperation – Communication – Satisfaction
Dorsch et al. 1998	<ul style="list-style-type: none"> – Trust – Commitment – Satisfaction – Minimal opportunism – Customer orientation – Ethical profile
Lee & Kim 1999	<ul style="list-style-type: none"> – Trust – Business understanding – Benefit and risk share – Commitment
Han et al. 2008	<ul style="list-style-type: none"> – Trust – Commitment

Lee and Kim (1999) identified four elements that make up relationship quality and have significant effect on relationship success from both financial and non-financial perspectives: trust, business understanding, benefit and risk share, and commitment (Figure 11). Their

existence has been supported in other studies as well (e.g. Anderson and Narus 1990; Dorsch et al. 1998; Dwyer et al. 1987; Ganesan 1994; Grover et al. 1996; Gulati 1995; Han et al. 2008; Mohr and Spekman 1994; Morgan and Hunt 1994) and they are used as a basis in this study, too.

The components of relationship quality

<p>Trust <i>Degree of confidence and willingness between partners</i></p>	<p>Business understanding <i>Degree of understanding of behaviors, goals, and policies between partners</i></p>	<p>Benefit and risk share <i>Degree of articulation and agreement on benefit and risk between partners</i></p>	<p>Commitment <i>Degree of the pledge of relationship continuity between partners</i></p>
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Figure 11: The components of relationship quality (adapted from (Lee and Kim 1999))

Also other elements, such as satisfaction and communication, have been argued to exist (Grover et al. 1996; Morgan and Hunt 1994). In this study satisfaction is seen more as a result of high relationship value and relationship quality, and communication, in turn, is rather a factor influencing the relationship quality elements.

In public procurement benefit and risk share, as well as commitment are factors that are, or at least should be, defined in the contract. Contracts coordinate and manage commitments and due to legislation partners cannot expect the relationship to continue forever. Contract terms also define how risks and benefits are shared and managed. (Haapio 2008) However, trust and understanding are elements that cannot be unambiguously determined in the contract.

Trust is argued to be a key factor in the formation of a successful inter-organizational relationship since it is not possible to monitor and control every detail in a relationship due to incompleteness of contracts. (Camén et al. 2011; Han et al. 2008; Mohr and Spekman 1994; Naudé and Buttle 2000; Ploetner and Ehret 2006) Trust increases knowledge sharing between parties and enhances collaboration and coordination (Goh 2002; Selnes and Sallis 2003). Parties may also be more willing to address problems as they occur and solve them together if they trust each other (Narayanan et al. 2007).

Business understanding may also be called shared understanding, defined here as participants' agreement and mutual knowledge about what they are doing, why they are doing it, and how they are doing it. Thus, shared understanding indicates that the parties have shared goals, too. Shared understanding has a positive effect on a relationship's performance and success since it enables partners to predict the behaviors of others,

coordinates activities, facilitates efficient use of resources, reduces conflicts, provides opportunities to adapt to changes, and increases participants' satisfaction and motivation (Cannon-Bowers and Salas 2001; Feldman and Rafaeli 2002; Vlaar et al. 2006).

Elements of a successful contractual relationship

Both *relationship value* and *relationship quality* are objects of interest in this study. In other words, a successful contractual relationship, as defined in this study, has two types of goals: value or outcome related goals and social or relationship related goals (Figure 12). In a successful contractual relationship all parties are satisfied with both the relationship and its outcomes.

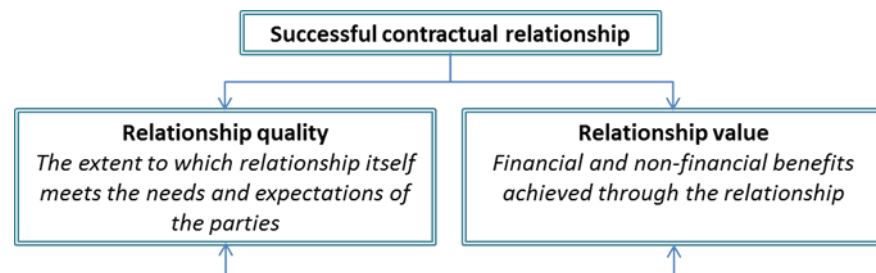


Figure 12: Successful contractual relationship consists of relationship quality and relationship value. Quality affects value and vice versa.

Relationship value seems to be positively correlated with relationship quality and vice versa (e.g. Ulaga and Eggert 2006). However, it is also possible that a relationship is high value but low in quality. For example, partners may gain cost savings but collaboration is still difficult. A relationship may also be of high quality, collaboration working just fine, but the cost of the relationship is too high. Thus, a successful contractual relationship requires that both value and quality of the relationship are high.

Determinants of a successful contractual relationship

Lee and Kim (1999) make a distinction between the elements and determinants of relationship quality. Other scholars have not necessarily made the same distinction, but factors affecting the outcome of a relationship have been studied at a more general level. Determinants are factors that contractual parties can directly and consciously affect. For example, the level of trust and understanding cannot be directly increased but parties may increase the level of knowledge sharing, which then affects trust and understanding levels.

Knowledge sharing is argued to be perhaps the most important indicator of a successful relationship (Beugelsdijk et al. 2009; Han et al. 2008; Lee 2001; Lee and Kim 1999; Mao et al. 2008; Mohr and Spekman 1994). Some scholars use the term communication (Grover et al. 1996; Morgan and Hunt 1994) but basically these two terms refer more or less to the

same thing. In this study the term knowledge sharing is used and it is defined as activities of transferring knowledge, either tacit or explicit, from one organization to another (Lee 2001). In many contexts, most of the knowledge sharing may actually be information sharing (Sun and Scott 2005). Traditionally knowledge has been defined as “justified true belief” and information, in turn, is more like a flow of messages without any personal interpretations or valuations (Alavi and Leidner 2001).

From the procurer’s perspective, more information provided by suppliers will help them understand the development of contract implementation and choose solutions that satisfy their wants and needs. From suppliers’ standpoint, obtaining information from the buyer is necessary, especially in service contracts, since it enables them to analyze the current situation and possible changes and to provide and develop more valuable services. (Selnes and Sallis 2003; Wang and Bunn 2004)

Thus, the higher the degree of knowledge sharing, the greater the accomplishment of benefits of a relationship is argued to be (Blumenberg et al. 2009; Lee 2001; Selnes and Sallis 2003). In other words, effective knowledge sharing indicates high value of relationship. Knowledge sharing also increases the level of trust (Das and Teng 1998; Mao et al. 2008) and is a prerequisite for the formation of shared understanding (Blumenberg et al. 2009; Feldman and Rafaeli 2002). On the other hand, it has been argued that shared understanding and trust promote knowledge sharing since clear, shared goals help to define what kind of knowledge is important to share, and reliance on the partner prevents withholding of information. (Lee 2001; Selnes and Sallis 2003; Sun and Scott 2005) Thus, the relations and influences between trust, shared understanding, and knowledge sharing are not perfectly clear yet they all promote the formation of a high-quality, high-value relationship.

Successful contractual relationship in public procurement

Public organizations cannot directly choose the partners they want to collaborate with: suppliers are selected through competitive tendering based on pre-determined selection criteria. The formation of a relationship begins with the preparation of procurement, tendering documents and a contract draft playing a significant role in ensuring a high-value, high-quality relationship. It might even be said that the quality of the tendering and contracting documents indicates the quality of the future relationship.

Based on the existing literature presented above, a new tentative framework for the elements of a successful contractual relationship in the context of public procurement is proposed. Success of a contractual relationship consists of two dimensions: relationship quality and relationship value (Figure 13).

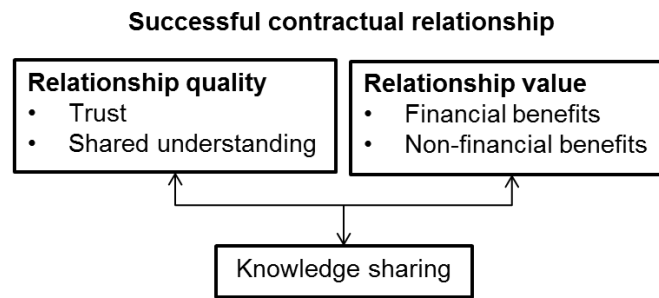


Figure 13: Framework for a successful contractual relationship in public procurement

Value includes both the financial and non-financial benefits achieved through the relationship by contractual parties. Relationship quality describes the characteristics of the relationship itself. It includes trust and level of understanding, and affects the value of the relationship. On the other hand, when parties feel that they get value from the relationship, they are more likely to trust their partner, and relationship value may also affect the quality of the relationship. Knowledge sharing has a positive impact on relationship quality and, on the other hand, relationship quality may affect the level of knowledge sharing. Thus, maintaining an interactive, positive relationship based on knowledge sharing, trust, and shared understanding, in which both parties can gain value, is critical to the success of a relationship.

3.5 Conclusions of literature review

SMEs and small and micro-sized companies in particular face challenges during the public procurement process and their share of companies successfully taking part in public tendering is limited. Based on previous research, most of the challenges are related to inadequate information sharing and small businesses' lack of resources. Factors promoting small business participation in public procurement have not been studied before.

More active small business participation in public procurement could offer several benefits to all stakeholders. Small business participation may foster innovativeness and contribute to local employment and economic development. Public organizations are stable partners offering important references for small businesses and, on the other hand, SMEs with innovative offerings could be flexible and efficient partners to public procurers, enabling a more effective use of public funds and better services to citizens.

Public procurement differs from private purchasing due to legislation and different objectives and environments, and the characteristics of the public sector are likely to affect the formation of buyer-supplier relationships. The public sector is forced to use competitive tendering in procurements exceeding certain thresholds. Thus, partners cannot be chosen as

freely as in the private sector. The contract is awarded to the supplier that creates the most competent tender based on the pre-defined selection criteria, not necessarily to the most suitable supplier. Also the lengths of contracts may hinder the formation of close relationships.

Procurement documents, such as invitations to tender, selection criteria, service descriptions, and finally tenders, play an important role in public procurement. Based on these documents suppliers are chosen and services delivered. Procurers are usually the more powerful parties in relationships since they form the contract and define the terms quite unilaterally. Formal contracts, too, are important, and collaboration is regulated and managed by contracts rather than informal mechanisms. Thus, the quality of the contract and tendering documents may actually indicate the quality of the relationship. However, according to the principles of proactive and relational contracting approaches, relational governance may actually have an important role in public procurement. Not all aspects of a relationship can be taken into account in the contract preparation phase. Due to this imperfection of contracts, trust and social factors may be important facilitators of cooperation, ensuring the success of a contractual relationship.

A successful contractual relationship in the context of public procurement can be defined through two dimensions: relationship value and relationship quality. Relationship value refers to the financial and non-financial benefits gained by contractual parties. Relationship quality, in turn, describes the characteristics of the relationship itself, consisting of elements such as trust and shared understanding. Based on previous research, knowledge sharing seems to be the main factor enhancing the quality and value of relationships. A common sense assumption is that smaller organizations should have a more favorable knowledge sharing and communicative culture because it may be easier to share knowledge between smaller number of people and because the small size anticipates a tightly-knit community. However, there is no previous research supporting this argument.

Part IV: Empirical findings

In this part the empirical findings of the study are discussed. Research methods and data are presented in part two. In this part, I will very shortly present the informants' opinions about the role of small businesses in public procurement. After that I will discuss the objectives of contractual parties and the elements of a successful contractual relationship. Finally barriers and enablers to the formation of a successful relationship in different phases of the public procurement process will be presented.

In order to bring some transparency to the research and analysis, I will use direct quotations from the interviews as examples. The original Finnish quotations have been translated into English. All municipal official quotations are from the personnel of The Municipality, gathered during the PRO2ACT project in the fall 2011. Similarly, the few end user quotations are from fall 2011. Service providers' and other business representatives' quotations are from the interviews, simulation day, and workshop, collected during the fall 2011 and spring 2013. "Business representatives" are persons from different unions representing (small) businesses. Quotations are marked in the text as follows:

"Direct quotation" (interviewee)

Some quotations are shortened but the attempt has been not to change any of the main ideas. Interviewees' industries are mentioned only if it clarifies the contents of a comment.

4.1 Small businesses in public procurement

Opinions about the role of small businesses in public procurement amongst municipal officials varied. Others thought that collaboration with small companies may offer several benefits. Small service providers were seen to be flexible, react quickly, and provide better services. Supporting local businesses was also seen as a good practice.

"These small suppliers, they have certain flexibility, they act quickly." (municipal official)

"As a large public procurer we of course hope that local SMEs could be our partners, but often the contracts are so large that smaller companies cannot even tender." (municipal official)

"... small entrepreneur, one person might be both the CEO and the cleaner. You can conclude that the quality is better in smaller company." (end user)

Some informants, on the other hand, argued that small companies do not necessarily bring any added value to the procurer. Large contracts are often more profitable to the procurer and small companies may not have resources to fulfill them. From the procurer's perspective it may also be easier to cooperate with few large players instead of several smaller suppliers.

*"It's not our mission to feed these small companies without getting any financial benefits."
(municipal official)*

*"My objective is that we had larger companies as suppliers, and that we could develop
partnerships with them." (municipal official)*

Thus, in The Municipality there was no common view or strategy for how small businesses should be treated or what their role in public procurement should be.

4.2 Successful contractual relationship

This subchapter discusses what contractual parties actually want from the relationship and what kind of relationships they consider high-quality and high-value. Not very many straight and comprehensive answers could be found since the initial focus of the interviews was elsewhere and the objectives of the informants were not directly asked about. Some general opinions and views were, however, provided by informants.

4.2.1 Objectives of a contractual relationship

Municipal officials and suppliers have many objectives related to contractual relationships, most of which seem to be consistent with each other. In service procurement the major common goal is successful service production in order to serve end users. Both parties emphasized the role of the end user, meeting the real needs, and maintaining a high service quality.

"I guess the aim of the partnership is that the end user would be more satisfied. That both the customer and the end user would be more satisfied." (municipal official)

"Well, our goal is that cleaning works well. We have this quality criterion, 1 is the best, and of course we always want to keep the quality in level 1." (large service provider, cleaning)

Despite these fundamentally similar views, informants also had somewhat conflicting ideas about the other party's objectives. According to some procurer representatives, suppliers were seen to only want to do business and to provide service at the lowest possible price. Suppliers, in turn, argued that public procurers buy services from where they get them at the lowest price, do not care about the final outcome, and do not act collaboratively. Thus, both parties blame each other for focusing only on price and costs.

"They [service providers] are interested only in business." (municipal official)

"Well, companies have their own goals. It is to make profit." (municipal official)

*"It seems that The Municipality's primary objective is to get services as cheaply as possible."
(small service provider)*

"I think they still pretty often look for price reduction, even though they make as if to emphasize the quality." (small service provider)

For the most part, however, interviewees had mutual understanding about the objectives of the relationship. Next, the objectives of procurers and suppliers are discussed in more detail.

Procurer's objectives

Financial advantages and operational improvements were obvious goals that almost all municipal officials mentioned. High service quality and meeting the needs of end users were also mentioned several times.

"The main goal is that we have partners who are able to deliver the service and the quality we have bought. That they abide by the contract without constant monitoring." (municipal official)

"[The goal] is that customer gets what has been agreed." (municipal official)

"[...] financial advantages, reduction of monitoring and quality controls, and also operational improvements." (municipal official)

"Our goal is to ensure that The Municipality has economically most advantageous contracts that also serve citizens' interests." (municipal official)

"To get the thing we buy as cheap as possible." (municipal official)

Opinions about the quality and strength of relationships were, however, quite divergent. Some wanted stronger partnerships and co-development with their suppliers, whereas others thought that suppliers should only do their work and no interaction is needed.

"Some of our people have an attitude that company does the work in the field, and we only look at it from our own perspective. I mean, we don't think that it is our goal also to keep this school clean and to strive for it together." (municipal official)

In the private sector it is usually assumed that the customer is satisfied when the service delivered exceeds expectations or requirements. However, according to municipal officials, exceeding the quality levels set in the contract may not be positive in the public sector context. If the quality level is constantly exceeded and the supplier actually provides more than is expected, end users may get used to "too good service" and complaints may arise when a new supplier is being selected and the quality level gets worse. Thus, in public procurement the relationship may be most successful when quality levels are achieved but not exceeded.

"Should we then expect that new supplier also does a lot of things not included in contract?" (municipal official)

"I think it's quite rare that suppliers do more than they have to. [...] That cannot be the goal." (municipal official)

"Quality [of the previous service provider] was higher than what we had bought. [...] And when the contract ended, situation didn't serve anyone anymore." (municipal official)

Suppliers' objectives

Most of the suppliers told that their goal as companies is to make profit, but that they also want to do good work.

"We have the same goals than in business in general. Project has to stay in schedule [...] and has to be carried out safely. And financial goals of course, the company has to get something, too" (small service provider)

"Of course our work is not charity, but when we get a project, it doesn't matter what we have calculated [in tender], the work must always be good." (small service provider)

Contracting with the public sector may also provide other benefits for suppliers. According to municipal representatives, companies, especially smaller ones, should strive for contracts with municipalities because they offer certainty of payment, good references, and stable, long-term relationships.

"The Municipality is attractive partner because we are trustworthy, we never go bankrupt and we always pay our bills in time." (municipal official)

"We are also a good reference; we are the second largest procurer for many companies." (municipal official)

"We are a big customer. And of course a stable payer, I mean that, a municipality always pays its bills. That is, I think we offer a good customer relationship for many companies, a long-term relationship." (municipal official)

Indeed, many companies considered The Municipality and public organizations in general as good partners and contracts with them were seen desirable.

"Well, our objective is to continue the contract [with The Municipality] in every second year." (small service provider)

"They [public contracts] are safe, long contracts are made and, therefore, they are desirable." (large service provider)

4.2.2 Elements of a successful contractual relationship

When discussing the success of a contractual relationship, both procurers and suppliers emphasized the importance of understanding, collaboration, communication, flexibility, commitment, shared goals, and trust.

"Common operating models and certain kind of trust. Understanding. Familiar people. That constructor is able to improve services, and sees what the customer really wants." (small service provider, construction)

"Two-way collaboration. Not like a master and a slave but, reciprocal. [...] Normal interaction, understanding, politeness - those things need to work." (small service provider)

"Collaboration, it is extremely important. Together we ensure that customer gets what he wants." (municipal official)

"Trust and kind of smoothness, they help cooperation." (small service provider)

The term *partnership* and its importance came up frequently, even though views about the definition of the word were contradictory.

"Partnership, it means that there is a common objective. [...] Both parties must be engaged in working together to achieve this objective. Commitment and flexibility, and constant interaction during contractual relationship, they are components of partnership." (municipal official)

Shared understanding

The importance of shared understanding was emphasized throughout the empirical material. In the context of this study, shared understanding refers to shared goals, shared operating models, and shared practices. Informants found it very important that parties understand each other's goals and practices. Understanding enables efficient and satisfactory collaboration and helps parties strive for shared goals. However, it was also noted that this understanding is often lacking, which complicates collaboration.

"As long as the buyer and users have understanding and expertise in the service, it is easier for service providers to operate." (small service provider)

"Usually there is only our perspective and their perspective and we don't necessarily understand each other." (municipal official)

Trust

Trust was also a concept mentioned several times and seen as an important factor in a good relationship. In the context of this study, trust is about being confident that other party will do everything included in the contract. Trust increases knowledge sharing and cooperation and decreases the need to control and monitor.

"It's not that we look for some kind of deeper friendship. But that there would be a confidential relationship, that's important." (municipal official)

"The buyer should be able to trust us suppliers." (small service provider)

"Of course, especially the procurer must have 110 per cent trust in the constructor. [...] Operations must always be fully transparent. (small service provider, construction)

"If we know all those people, we can call them [...] and it works, all learn together, develop together, because they trust each other." (small service provider)

"It would also decrease the need of monitoring and controlling, if we could trust our partners" (municipal official)

However, mutual trust is not always present. Municipal officials felt they could not always trust that suppliers would do everything included in the contract and that they should monitor and control suppliers all the time. Service providers, in turn, felt that they could not trust that municipal officials treat all service providers equally.

"Well, trust is quite low..." (large service provider)

Thus, according to the interviews, a successful contractual relationship seems to consist of the features predicted in the literature review. Both parties expect to gain financial advantages and other benefits, such as high-level services and stable partnerships. Trust and shared understanding are important prerequisites for a high-value, high-quality relationship. Other factors, such as collaboration, commitment, and communication, were also considered important.

4.3 Barriers and enablers of a successful relationship

In this subchapter the barriers and enablers to a successful contractual relationship that came up in the empirical data are discussed. Barriers and enablers are categorized according to the three phases of the procurement process: planning and preparation, tendering, and contracting and follow-up. Barriers and enablers are studied from the suppliers' standpoint.

4.3.1 Barriers of a successful relationship

Analysis of the empirical data showed that most of the main barriers to the formation of a successful contractual relationship were somehow related to knowledge sharing. This supports the previous arguments that knowledge sharing has a positive impact on a relationship's success. Barriers in different phases of the procurement process have been listed in Table 14. In addition to the barriers listed in Table 14, some less common or industry-specific barriers will be shortly discussed under the heading *other barriers*.

Table 14: Barriers to the formation of a successful contractual relationship

Planning	Tendering	Contracting
Lack of interaction and market dialogue	Difficulties in obtaining information about forthcoming tenders	Lack of knowledge sharing
Lack of legal expertise	Tendering schedules	Limited length of contracts
Too detailed definitions of procurements	Lack of procurers' substance expertise	Overestimation of suppliers' own abilities and resources
	Lack of suppliers' tendering expertise	Deficiencies in earlier phases of the procurement process
	Selection criteria	
	"Predetermined" results	
	Size of contracts	

Thus, barriers listed in Table 14 are challenges that service providers experience during the procurement process. Challenges may be caused by activities of either the service provider or the procurer. The barriers discussed here are factors that came up in the empirical data and the list may not be fully exhaustive. Next the barriers are discussed in more detail.

Barriers in the planning and preparation phase

In the planning and preparation phase, companies should obtain information about public procurers and their forthcoming contracts. Almost all challenges reported in this phase were somehow related to lack of interaction and market dialogue.

Lack of interaction and market dialogue

Analysis of the empirical data showed that there is very little contact between municipalities and the markets before the actual tendering phase begins. Only some unsystematic interaction with existing contractual partners takes place.

"Communication before the competitive tendering is quite minimal. We have somehow thought that it's against the legislation to discuss our forthcoming procurements with suppliers."
(municipal official)

"If we suggest something, in tendering phase any changes can't be done and before the tendering no one ever asks us anything." (small service provider)

Challenges related to the lack of interaction can be divided into two categories. First, companies, especially smaller ones, are not aware of the possibilities offered by the public sector. They are unfamiliar with procurers and their needs, and finding the right contact person is difficult. The structures of municipal organizations were considered complex. Secondly, procurers do not know what kind of services and solutions companies in the market provide. This may actually indicate insufficient marketing by companies. Small companies in particular may lack marketing skills and resources, but large organizations also reported similar challenges.

"I'm not sure at all that he [a municipal official] knows what we can do, even though we have been sitting at the same table. And, likewise, I'm not completely sure about their organization and responsibilities and who I should contact." (large service provider)

"They [municipal officials] may have a bit limited knowledge, that, it has been nice to work with some company, and then they don't know what the overall situation [in the market] is."
(municipal official)

"Municipal procurers, they buy familiar and safe solutions, they don't know, or even want to know, about other options." (small business representative)

"I didn't have too many opportunities to tell what kind of services we offer." (large service provider)

Suppliers felt that their ability to affect the preparation of procurements is practically nonexistent. One small service provider, for example, told that there would be a more reasonable way to carry out recycling in schools, but because the municipality required a certain type of solution, the company had to act in a way that was actually more expensive than their own alternative solution. However, it also seems that suppliers do not always facilitate open interaction either. According to municipal officials, suppliers are very reluctant to discuss procurement-related issues openly and in public. They may be afraid that their competitors will make use of their knowledge. Due to this reluctance there is no real dialogue in the meetings that procurers sometimes arrange.

"We have few times, before some larger procurement, arranged info meetings before we start the tendering. Tenderers may show up, but there are no in-depth discussions. Service providers come more like to monitor the situation." (municipal official)

Because there is no systematic interaction between procurers and suppliers, suppliers are not aware of procurers' long-term plans and strategy, meaning that they cannot modify their solutions and operations to meet the needs of procurers. Better informing might even encourage suppliers to create new businesses and networks, or at least help them plan and schedule their business operations. Informants also emphasized that interaction should be continuous and not take place only in the context of a certain procurement.

"Interaction, it doesn't work in a way that you case-by-case invite to tender and then have those technical dialogues." (medium-sized service provider)

Interaction may depend on the size of a procurer. Small municipal procurers usually know local suppliers and their services but, on the other hand, they may also have smaller resources to scan the markets properly compared to larger municipalities.

"In small municipalities, everybody knows each other and they have a long history. Also a smaller company may have better opportunities to succeed." (small business representative)

In summary, procurement officials are not aware of solutions and services in the market, and suppliers are not familiar with the procedures and opportunities of public procurement. This is a challenge faced by larger companies as well but small businesses are especially vulnerable due to their fewer resources.

Lack of legal expertise

An interesting observation was that municipal procurement officials were not very familiar with procurement legislation. Due to this uncertainty, an overcautious approach towards potential suppliers is often chosen, which may hinder interaction especially in the planning phase. Some informants pondered if it was allowed to interact with potential suppliers at all.

"I'm not so familiar with the procurement legislation. Is it [market dialogue] forbidden?" (municipal official)

"Legislation, it doesn't necessarily require, but it's applied in the wrong way, and no close partnerships can be formed." (small service provider)

"Yeah, I should actually find out what it [legislation] enables and not only what it restricts." (municipal official)

Suppliers, too, were quite unfamiliar with the legislation. They do not always understand the requirements of public tendering and find participation very burdensome. Thus, lack of knowledge may hinder their participation.

"I know that many refrain from public tendering, because it's so difficult. Small businesses refrain." (municipal official)

"Actually I haven't really familiarized myself with the procurement legislation." (small service provider)

A better understanding of the legislation by both procurers and suppliers might prevent excessive prudence and enable more fruitful interaction already in the planning phase of procurement.

Too detailed definitions of procurements

The contents of the contract are defined in the planning phase, and this definition plays a very important role in later phases. According to suppliers, procurers often set very detailed requirements for procurement, not allowing alternative solutions. Only tenders that meet the requirements are taken into account. Thus, due to very detailed definitions, companies may decide not to participate at all, or the procurer may not get the best solution available since they may not know what to ask for.

"They think that this is exactly what we want to buy, this is what we need. Who would do this for us, we already have the recipe." (small service provider)

Barriers in the tendering phase

The official tendering phase was described as rigid and formal. This phase is the most regulated by legislation and informants also saw that it cannot be made easier either. In this phase suppliers should be willing and able to leave a competent tender based on the selection criteria. At the end of a successful tendering phase, the procurer signs a contract with a supplier who is able to provide the service the procurer really needs. Challenges reported in the tendering phase were similar to those identified in previous research, meaning difficulties in obtaining information, complexity of the tendering process, and selection criteria not favoring SMEs.

Difficulties in obtaining information about forthcoming tenders

Companies, especially smaller ones, found it difficult to obtain information about forthcoming tenders.

"Informing about those [public contracts], there is quite much to develop, that a contract ends up to the right supplier." (small service provider)

"Small companies, they don't necessarily find or even know how to look for these public tenders" (small business representative)

Information usually exists, but finding the tenders related to a supplier's own field of expertise may take a lot of time and resources. The electronic notification channel HILMA was seen as a slightly complicated system; moreover, small companies may not have resources to regularly check over all invitations to tender. None of the large companies' informants mentioned this problem, but it was not explicitly asked about either.

"There is information [of forthcoming contracts] for example in their websites, if we just had time to explore them..." (small service provider)

"The basic information may be found in HILMA, but I guess there are many interesting contracts that we don't even know how to look for." (small service provider)

"There are so much these invitations to tender, that only finding the ones related to cleaning... Sometimes you have to be in the right place at the right time. It's not that easy." (small service provider, cleaning)

"Invitations to tender, they could be somehow categorized, that you could just glance them and wouldn't have to browse 25 titles if any of those concerns cleaning." (small service provider, cleaning)

Tendering schedules

The timing of informing was also seen as deficient. Municipalities report their intentions to procure quite late from the suppliers' standpoint. Small firms may have little experience in drafting tenders and they need enough time to create a competent tender. Since procurers do not communicate their long-term plans very openly, it is difficult for suppliers to anticipate and prepare for forthcoming contracts. Municipalities tend to procure a large amount of services at once, meaning that a large number of invitations to tender are published within a short period of time. Thus, the workload of suppliers may momentarily increase exponentially.

"Two weeks for tender calculations, that's pretty tight." (small service provider)

"If you don't check HILMA in three weeks, you miss the procurement. It has happened to us." (small service provider)

Cooperation between municipalities is also limited. Large cities' large procurements may take place concurrently, increasing the workload of tenderers and causing a dilemma about in which tenders companies can participate. The problem is especially pronounced with small companies. If a small company happens to win all the tenders, its resources may not be sufficient to fulfill all of them. On the other hand, if a company does not take part in some tenders, its odds to win even one tender may decrease.

"Insane amount of invitations to tender is announced simultaneously. And because we have to get a certain amount of contracts, we have to tender, and then there is the risk that we get too many of them. That's pretty tricky situation." (small service provider)

"Invitations to tender build up; it's pure hell in the spring." (small service provider)

Lack of procurers' subject matter expertise

Both procurers and suppliers criticized each other for lack of expertise in the tendering phase. According to interviews, procurers may not have subject matter expertise on acquisitions. It was argued that procurers are not familiar with the solutions in the market and that they often ask for the same old, familiar services, even though there would be better alternatives available, too. Because of this lack of subject matter expertise, invitations to tender may be poor and inadequate. The roots of this problem are in the planning and preparation phase, and in the lack of interaction between procurers and the markets.

However, the problem culminates in the competitive tendering phase and has been listed as a separate factor.

"Procurers don't know what they want, they don't know the product or the service and, therefore, invitation to tender is poor and the ultimate outcome cannot be anticipated." (medium-sized service provider)

"Substance expertise of buyers is sometimes completely useless, they draft invitations to tender about purchases they understand nothing about" (large service provider)

"If procurers have responsibilities for many procurements, they may not understand how they should express themselves [in invitation to tender] in this specific case" (large service provider)

Suppliers reported that it is sometimes difficult to understand what the procurer really wants to buy. If the invitation to tender is not clear and the contract terms are ambiguous, suppliers may raise the price in order to minimize possible risks or even decide not to participate at all.

"I think we should consider whether we are able to do such invitations to tender that companies understand them correctly..." (municipal official)

"Sometimes we run into things that, we really don't understand why they have expressed it like this, when they could have expressed it in another way." (large service provider)

In order to ensure successful cooperation during the contract execution phase, it is extremely important that tendering companies already in the tendering phase really understand what the procurer wants and what is expected from the selected supplier.

Lack of suppliers' tendering expertise

Critique was aimed at not only procurers, but suppliers, too, were said to be incompetent in tendering. Particularly small companies that seldom employ legal experts seem to face a lot of challenges during the tendering process.

"There may be those one-man firms that focus on the work itself and don't have the resources for paper work" (municipal official)

"Small companies, they don't know that filling the documents is challenging. They don't know that if they lack the expertise, they can also buy this service, there are plenty of those consultancy companies." (municipal official)

According to interviews, sometimes tenders have to be rejected because they do not meet the requirements set in invitations to tender. Suppliers may have all the resources and competences needed, but because they have no tendering expertise, they fail to produce a compliant tender. Interviewees reported that for example a small spelling or other mistake may cause a tender to be rejected. This kind of mistakes may not be fatal in the private sector, but in public procurement tenderers must be extra careful to include all the things needed in their tenders.

"We think we have expressed it in our tender, it's a matter of course for us, but we may have actually missed it, and in public procurement you have to write every detail there." (large service provider)

Even though large companies also face problems for sure, small business representatives felt that their opportunities against large companies were poor, since their tendering resources are often much more limited.

"These big companies, they hog all public procurements because they have good resources to participate in tendering." (small business representative)

"Tendering phase, it requires a lot of labor resources, which is impossible for a small entrepreneur." (small business representative)

"Large companies, they have lawyers who read and check that everything is correct, and still they don't always have everything right. Not to mention these one man firms, they don't have same kind of resources." (municipal official)

Selection criteria

Many suppliers mentioned the selection criteria and inadequate invitations to tender as a barrier to their success in tendering. Suppliers told that sometimes invitations to tender do not include enough information for the creation of a successful tender. The ambiguity of quality criteria in particular was a recurring theme in the interviews. Many suppliers thought that the criteria often leave too much room for subjectivity.

"The scoring is always a lottery. In one tendering we may have got full scores and in another we get very low scores with the same papers. It's not objective." (large service provider)

"It's a matter of chance when they define the comparison criteria. It's usually a surprise for both buyer and seller what the final outcome is." (medium-sized service provider)

"These verbal descriptions, you get scores depending on how the reader wants to interpret your description." (large service provider)

Selection criteria of intangible services are usually even more difficult to define than goods.

"In goods procurement it's easy to define what we're buying and what's delivered, it's only about the number of units. In service delivery promises are sold, and then the promises are interpreted very differently across the table." (large service provider)

Municipal procurers were also accused of focusing too much on price. Both small and large companies shared this opinion. Large firms may, however, better afford price reductions.

"The problem is that selection criteria are so price-oriented." (large service provider)

"It is the price that dictates." (large service provider)

There are also other, for example financial and educational requirements, which do not favor small businesses. For example, the level of education is on average lower in small companies.

"Scoring the education of personnel and management, that's where we are left behind. [...] We are all self-taught constructors." (small service provider, construction)

"They require that turnover has to be like three times as big as the contract value. [...] So, you have to first calculate it and then you notice that this is too much, I did five hours unnecessary work." (small service provider)

Poorly defined selection criteria may also lead to unfavorable outcomes from the procurer's perspective.

"It's possible that unskilled people are awarded the contract because only price matters." (small business representative)

"When it's only the price that matters, it leads to a situation where supplier realizes they've promised something they cannot fulfill." (medium-sized service provider)

"Predetermined" results

It was pointed out that if a procurer has been collaborating with a certain supplier and finds it proficient, they may set the selection criteria in a way that favors this familiar supplier and the tendering process itself is only "a scam". Thus, the procurer is not aware of all actors in the market and the tendering process does not actually meet its purpose. This is not definitely a problem for small companies only, but for small companies it may be more difficult to become a known actor.

"After scanning the market they [municipal officials] notice that hey, those actors are nice, we want to collaborate with them, and then they select the criteria in such a way that they get exactly the supplier they want" (medium-sized service provider)

"We have one experience, that, the whole tendering process was a scam and actually the selection had been done beforehand." (small service provider)

Thus, informants reported even some rather serious violations of the procurement legislation. It is not known if these violations happened deliberately or because of unawareness.

Size of contracts

Large contract sizes are one major and rather obvious barrier for small business participation and municipal officials were also aware of this. Large contracts are often more affordable for procurers and they also take fewer resources.

"Often the contracts are so large that small actors can't tender." (municipal official)

"Contract sizes are so large." (small business representative)

Large companies found large contract sizes mainly a positive thing.

"I support the idea that procurements are divided in larger lots and supplier can get a bigger share. Then it's possible to price, allocate resources and plan the service reasonably." (large service provider)

Other barriers

Interviewees also mentioned other, less common or industry-specific barriers occurring in the tendering phase. One supplier told that sometimes they may refrain from participating in a tender because of contract terms that are too strict. However, this barrier was not mentioned by other informants.

"We went to see it, did some calculations, and then our lawyers said that we're not going to take part in this. There were some very hard sanctions." (large service provider)

In the design sector suppliers told that often some kind of design or blueprint has to be included in the tender. Thus, the actual work has to be done before there is any certainty of order. In some cases these designs had been used even though the work itself was not ordered. This kind of malpractice may discourage companies from participating in public tenders.

"They have used the ideas we have given in tender without ordering the work." (small service provider)

"Especially in graphic design, you have to include the actual work in tender, which is completely inconceivable." (small service provider)

Some suppliers pointed out that the procedures and principles of public procurers are often divergent, which may be misleading. Documentation and grading systems are not standardized but vary between procurers. On the other hand, others felt that it is only positive that for example documentation is not standardized, because variation forces tenderers to read everything through.

"Standardization would be one important objective. That, practices would be the same, regardless of the industry or procurement." (large service provider)

"In my opinion it wouldn't be good at all if they [invitations to tender, contract terms] were more similar in appearance, because then they would be read through even more carelessly." (large service provider)

Barriers in the contract implementation and follow-up phase

In the contract implementation phase the supplier should be able to successfully deliver the service the procurer has bought. Any problems should be handled quickly and effectively. In this phase informants reported challenges related to knowledge sharing and the limited length of contracts. Also deficiencies in earlier phases of the procurement process may lead to problems in the contract phase.

Lack of knowledge sharing

Once again, lack of knowledge sharing is a major issue behind problems occurring during the contract implementation phase. Problems related to knowledge sharing can occur for example due to personnel replacements or lack of common rules. Suppliers told for example that it is not always clear at all who their contact person in a municipality is. Contractual parties usually communicate only when problems occur, which is not consistent with the principles of proactive contracting.

"Well, there may be some kind of information blocks, the content of the message changes. Always when there is a person between the informant and the recipient, of course the message will change." (municipal official)

"Usually we interact only when something bad happens and that's of course wrong" (municipal official)

"They are all our contact persons [in The Municipality], messages can come from anyone, and we don't know with whom we should interact" (large service provider)

"Once again there was this information break and the information never reached us." (large service provider)

"Turnover of personnel, it's enormous [in cleaning sector]. Every time you have to start from beginning. It's troublesome for end users, too. No relationship of trust can be formed. (municipal official)

The structures of municipal organizations may sometimes be quite complex, and procurement often requires collaboration between several departments. Information may not always reach all actors within the municipality, and as a result, the municipality's external communication may be contradictory.

Limited length of contracts

The length of contracts in the public sector is always limited. According to interviewees, often this limited timeframe is the reason why a closer partnership is cannot be formed. There is very limited time for co-development and because the outcome of the next tender cannot be known, parties may for example be reluctant to invest financially in the relationship.

"True partnership, it's very difficult in this legal framework." (municipal official)

"We may have very deep partnership in contract phase, but the time is just so limited, because the term of contracts cannot be very long." (municipal official)

"Five to seven years is a timeframe where some co-development could be done. Three years is too short. The first year is, like, learning and discussing. And when everything starts to work, we start a new tender." (municipal official)

Overestimation of suppliers' own abilities and resources

Several interviewees argued that suppliers sometimes overestimate their abilities or resources during the procurement process, which may lead to serious problems in the contract implementation phase. Smaller companies in particular were accused of overestimation.

"As a buyer I have noticed that sometimes suppliers overestimate their resources and technical competences" (large service provider)

"During the contract phase supplier realizes that he has promised something he can't fulfill." (medium-sized service provider)

"Small businesses sell too much service, and then don't have time to do everything they have promised." (municipal official)

Overestimations may be caused by lack of expertise or even by pure mistakes.

Deficiencies in earlier phases of the procurement process

Earlier phases affect the contract implementation phase and if some deficiencies occur for example in the tendering phase, the impact on the contract phase may be harmful. One supplier gave an example of a procurement process, in which an invitation to tender was misleading, and the actual tasks and costs were not revealed to the supplier until the contract phase.

"Drafting the tender was easy but when the work began I realized all the things I should have taken into account. The assignment was not clear at all. They didn't say that I'm going to work as a project coordinator, which takes pretty much time. If I had known these things, the final sum of my tender would have been completely different." (large service provider)

Informants also argued that sometimes contracts and terms are so detailed that it is not possible to operate in a flexible manner in the contract phase. Thus, activities in the planning and tendering phases may hinder the formation of flexible collaboration.

"In contract phase dialogue is possible only if preliminary work before invitation to tender is done properly." (medium-sized service provider)

"Interaction should be included in the contract in order to ensure that it works." (medium-sized service provider)

Other barriers

Interviewees also mentioned other, less common or industry-specific barriers. In the cleaning sector many interviewees mentioned challenges related to language and culture. The fact that cleaners, often with foreign backgrounds, and municipal officials or end users do not have a common language may lead to severe communication problems. However, these challenges are industry-specific and cannot be generalized.

"If they don't speak Finnish properly and they communicate with end user, misinterpretations occur." (municipal official)

Suppliers also argued that there is a lot of variation in service quality monitoring, which may cause conflicts.

"Quality measuring is not equal. One inspector decides that this is my way and another inspector decides something else." (small service provider)

Also comments related to inequality of the relationship and contract terms were raised.

"Municipality buys and pays and demands, and we try to implement everything. We don't really have any power to any of these things." (small service provider)

"Contracts are always interpreted to municipality's advantage." (small service provider)

"The municipality just takes facilities to be cleaned from us because they want to transfer them to their own cleaners." (small service provider, cleaning)

4.3.2 Enablers of a successful relationship

In addition and contrast to barriers to the formation of a successful contractual relationship, both service providers and municipal officials also listed several factors that promote the success of a relationship. Enablers in different phases of the procurement process (planning and preparation, tendering, and contracting and follow-up) have been listed in Table 15. These enablers are factors that informants brought out and the list may not be fully exhaustive.

Table 15: Enablers to the formation of a successful contractual relationship

Planning	Tendering	Contracting
Interaction between suppliers and procurers	Transparency of tendering process	Successful completion of the planning and tendering processes
Providing long-term information about procurer's strategy and needs	Suppliers' tendering experience	Knowledge sharing and interaction
Requesting comments about invitations to tender from companies	External services	
	Dividing contracts in smaller lots	

Thus, the enablers listed in Table 15 are factors that promote the formation of a successful contractual relationship from the service providers' standpoint. In addition, the lack of previously mentioned barriers is promoting the formation of a successful relationship, too.

Enablers in the planning and preparation phase

The basis for a successful contractual relationship is formed in the planning and preparation phase. Carefully prepared procurement and tendering enable the formation of a successful relationship with a suitable supplier.

Interaction between suppliers and procurers

Any type of interaction taking place between suppliers and the procurer before the actual tendering phase was seen as useful. Interaction in general is rare in this phase, but some communication with existing contractual partners takes place. Procurers receive useful information regarding for example new solutions, which may help them plan their procurements and draft better invitations to tender. Suppliers, in turn, get information about forthcoming tenders.

"I interact with those companies all the time. And yes, sometimes I may get information about something, that, I start to think that hey, there might be a better way to do this. But it's like unofficial. (municipal official)

"He [municipal official] e-mailed me that hey, check this tender in HILMA. I may have found it anyway but they informed me first." (small service provider)

The general opinion was that interaction between procurers and suppliers is increasing.

“General tendency is that technical dialogues are used more and more, and markets are scanned. That usually leads to better invitations to tender.” (medium-sized service provider)

Many suppliers felt that it is the procurer’s responsibility to contact suppliers, but that companies could also take a more active role and market their services and solutions to procurers.

“Informing should work also other way round, that suppliers should also inform us, because a lot of changes happens there as well,” (municipal official)

“It’s also our responsibility to tell about our services. It’s our responsibility to sell our expertise.” (small service provider)

Providing long-term information about procurer’s strategy and needs

According to suppliers, better targeted information on upcoming tendering opportunities would encourage SMEs in particular to participate. Even a tentative list of future procurements could contribute to suppliers’ business and resource planning. Some interviewees suggested organizing meet-the-buyer events, where the municipality could give potential suppliers an overview of what they buy, how they operate and what is expected from suppliers. These events would allow suppliers to get to know municipal buyers, which, in turn, would promote further interaction between the parties.

“Some cities arrange info sessions in which they tell about their vision, where they are going, what they have planned, and so on.” (large service provider)

Requesting comments about invitations to tender from companies

Informants told that sometimes it may be useful to let potential tenderers influence the contents of tendering documents. One option is to send a tentative invitation to tender to potential tenderers to comment on. On the basis of these comments the final invitation to tender could be then modified. This procedure has already been used successfully in some municipalities in Finland.

“Procurer sent tendering document drafts to everybody. All could give comments, do proposals and affect. Then procurer prepared the final documentation based on these comments.” (large service provider)

In the context of open procedure procurement, drafts cannot be sent to specific suppliers only, but the procurer may for example request comments publicly on their websites.

Enablers in the competitive tendering phase

Even though bureaucratic tendering processes received a lot of criticism, some positive features were also mentioned. Transparency of the tendering process was the most acclaimed feature. The process of questions and answers was seen useful and, similarly, the possibility to learn from old public tenders was praised. However, there were differences between

companies in how they utilized these opportunities. No comments were made about different procurement methods and their influence on success but they were not directly asked about either.

Transparency of tendering process

The public procurement process was praised for its transparency. According to some interviewees, compared to private purchasing the public procurement process is open and regular. Suppliers found the possibility to ask questions during the tendering phase very useful, even though this opportunity is not used very often. The reluctance to ask questions might also be deliberate, since companies may not want to put their cards on the table or to make it easier for their competitors to participate in the tender. However, the process of questions and answers increases communication between the procurer and tenderers, and shared understanding about the contents of procurement can be formed.

“Every now and then there are some discrepancies in invitations to tender. Of course we ask, that, what do you mean with this.” (large service provider)

“Quite seldom, what I have noticed, any questions are asked.” (large service provider)

Tendering documents raised mixed feelings. Even though a lot of criticism towards the tendering phase was expressed, some interviewees also thought that in the public sector the selection criteria and invitations to tender in general are clear and detailed. It is usually clearly told which features are scored and how, which makes it easier to create a competent tender.

“They [public invitations to tender] are best prepared. It’s always very thoroughly described what they want and how the contract issues are handled and so on. I personally like them, they work.” (small service provider)

“Of course there’s always room for improvement, but it’s usually clearly defined what is included in the contract and what isn’t. That’s essential in tendering phase.” (small service provider)

Service providers also found access to old tenders very useful. By browsing through old tenders they can get an idea of what kind of tenders are successful and what kind of mistakes should be avoided. Thus, an understanding of tender requirements and evaluation criteria can be formed. This is an opportunity companies could exploit more in order to learn and succeed.

“It’s possible to make an appointment with the procurement center and see some old tenders of competitors. It really helps.” (large service provider)

“In municipal sector prices are public. Few times we have asked for those prices from the registry and reflected them with our own. And we shift through quality scores as well, like, where we have made a mistake.” (large service provider)

“Well yes, nowadays suppliers quite often come to see old tenders. It’s the prices they are most interested in.” (municipal official)

In case of doubt, it is extremely important that suppliers are active and ask for clarification. In this way it can be ensured that procedures are fair and meet all actors' needs. Interviewees told, for example, that sometimes a contract is awarded with a suspiciously low price, which may be the result of a mistake or misunderstanding. If the tenderer has made calculations incorrectly, problems may arise in the contract implementation phase when true costs are revealed.

"I have every now and then questioned these things to procurer. A few times I have asked if other tenderers, which often are small firms, have understood what they have tendered. Because it's impossible to offer the price this low." (large service provider)

Suppliers' tendering experience

Perhaps the most important enabler in the competitive tendering phase seems to be previous experience in tendering. This applies to both procurers and suppliers. Through personal experiences, mistakes, and successes both parties learn to act in a way that enables a successful tendering process. Many suppliers told that they have learned to draft tenders and do the calculations based on their previous experiences.

"I always use the old experience, form calculations based on that experience. We tried those calculation programs also but got terrible results. It's previous experience that serves as a basis." (small service provider)

"Routine is only thing that helps." (large service provider)

External services

There are also external services that help companies participate in public tendering. For example, there are online services that gather all the documents needed in tendering in one place and delivers them to the procurer on behalf of the tenderer. There are also services providing information about forthcoming public tenders categorized by industry. This kind of services reduce the workload and make the tendering process easier for suppliers.

"There is this web page, tilaajavastuu.fi, you can become a member, pay 60 euros a year and give them power of attorney and then they get the papers from tax authorities and maintain a register" (small service provider)

"I get it from Credita. Every morning I receive a summary of forthcoming procurements by e-mail." (large service provider)

Dividing contracts into smaller lots

As recognized already in previous research, large size of contracts is a major barrier for small business participation in public procurement. When contracts are divided into smaller lots, small companies have enough resources to participate, too.

"Often the contracts are so large that small actors can't tender." (municipal official)

Enablers in the contract implementation and follow-up phase

In the contract implementation phase, problems seem to be relatively rare. However, success in this phase requires that earlier phases have been carried out carefully. Any kind of knowledge sharing further reduces problems and difficulties.

Successful completion of the planning and tendering processes

The most important thing for the success of the contract implementation phase seems to be that earlier phases are successfully completed. A successful relationship begins to form with the first plans, tendering documents and contract drafts, which should enable enjoyable collaboration during the contract phase.

“During the contractual relationship, if you have awarded the contract, usually there are no problems after that.” (medium-sized service provider)

“Invitations to tender, they should allow partnership style contracts.” (municipal official)

Knowledge sharing and interaction

Any kind of interaction and knowledge sharing was seen to foster collaboration during the contractual relationship. Face-to-face meetings are particularly important since they make it easier to interpret each other’s ideas and to form a shared understanding. Still, the most common communication methods during the contracting period are e-mails and phone calls. The supplier and the procurer usually meet in the beginning of the contracting period and regularly during quality control visits, but especially suppliers wished for more interaction.

“We send e-mails and talk on the phone but people don’t have faces. Familiarity would promote commitment.” (municipal official)

Interviewees also mentioned personal relationships as a requirement for effective operations and information sharing. It is important to know whom to address questions to, and it is easier to discuss things with a familiar person. Discussions can prevent problems before they arise. The fact that staff turnover at The Municipality was high during the interviews was seen as problematic because it complicates the formation of personal relationships. Personal relationships are also dependent on the length of a contract; the longer the contract, the better the parties usually learn to know each other.

The Municipality had experience of regular meetings with one of their suppliers. These meetings were arranged with one specific, rather large company at the company’s own initiative, and were seen as very helpful for the success of collaboration.

“With company X, we have these meetings, it’s their initiative. We discuss all the current issues and I think that it has eased collaboration.” (municipal official)

“Close cooperation, that’s what helps us to get somewhere.” (municipal official)

"We talked everything through. End users could ask me questions. It has been so easy to operate after that meeting. It took about an hour. Why couldn't we have these meetings in every location?" (large service provider)

4.3.3 Summary of barriers and enablers

Both large and small companies face challenges during the public procurement process. For the most part, these challenges faced by large and small companies are quite similar, but small businesses often have weaker resources to deal with challenges. Essentially, most of the barriers identified in the empirical study were the same as identified in previous research. Enablers, in turn, have not been studied earlier. Informants reported more barriers than enablers. Also, at least according to suppliers, most of the barriers and enablers seem to be issues that only the procurer has influence over.

Barriers and enablers were mapped in each of the three phases of the procurement process: planning, tendering, and contracting. In principle, there is interest among small businesses towards public procurement and problems in the planning phase are mainly related to difficulties in obtaining information about procurers and their needs. The procurer may also have limited information about markets, suppliers, and their offerings, which may have an effect on the procurement planning process. These are challenges faced by larger companies as well, but small businesses may be especially vulnerable due to their fewer resources. Long-term information sharing and all kinds of interaction between the procurer and suppliers are solutions to these challenges.

The official tendering phase was seen as the most challenging and restrictive phase of the procurement process, during which most of the barriers faced by small companies occur. Finding suitable invitations to tender is time consuming. Often contract sizes are too large or tendering schedules too tight for small businesses. Certain subject matter expertise from the procurer and tendering expertise from suppliers is also required. Some informants commended the public procurement process for its transparency. Also, companies that had positive experiences from public procurement naturally found the public sector a very good partner and public tendering a functional process. Thus, one of the major enablers might actually be a company's previous experience.

During the contract implementation phase problems were rarely reported. According to informants, the success of the contract implementation phase is actually dependent on the earlier phases. Understanding of the market, properly drafted invitations to tender, and open interaction during the planning and tendering phases enable successful collaboration. In addition, constant interaction and knowledge sharing between contractual parties during the contract implementation is needed.

Part V: Discussion

In this part the findings of both the empirical and theoretical parts of the study are brought together and discussed. The discussion is divided into four sections. First, I will discuss small businesses' role in public procurement in general. Secondly, I will focus on the role of contracts in public procurement. The third section is about the successful contractual relationship and its definition in the context of public procurement. Finally, I will discuss factors that promote or inhibit the formation of a successful contractual relationship between small businesses and public procurers.

5.1 Small businesses in public procurement

Small businesses face challenges during the public procurement process. These challenges have been identified in previous studies and confirmed by the empirical findings of this study. Many of the challenges are shared by larger organizations as well but often small businesses' financial, personnel, and other resources are scarcer, and they experience greater difficulties. In small organizations all functions and tasks are handled by fewer people than in large organizations.

Based on both theoretical and empirical findings, larger companies are often awarded public contracts at small businesses' expense. The sizes of public contracts are often so large that small businesses may not have enough resources to participate in tendering. Financial and other requirements may also hinder small business participation. Thus, in order to promote small business participation in public procurement, contracts should be divided into smaller lots and procurers should ensure that requirements and selection criteria do not favor large players.

It has been argued that both procurers and small businesses would gain several benefits from more active small business participation in public procurement. Small businesses can gain an important reference and a stable partner. In theory, in public procurement a new, inexperienced business has the same opportunities to succeed as large and more stable companies. In the private sector, previous references and personal relationships may play a more important role, which may hinder small business participation. Public procurers, in turn, may benefit from innovative solutions and better quality when collaborating with small businesses. At the same time, they may positively influence the local economy and job creation. Active small business participation also increases competition.

The empirical findings of this study partly supported these benefits found in previous research. Small businesses are seen as effective actors offering high service quality. However, there were also some arguments against small business participation. Small businesses may have limited resources, which may lead to challenges in service delivery during the contract implementation phase. Large companies can also afford larger contracts and for the public procurer it may be easier and cheaper to collaborate with fewer large players instead of several small players. Thus, it should not be taken for granted that SMEs' participation automatically would bring advantages to all stakeholders.

Small businesses' attitudes towards public procurement varied to some extent. Others considered public contracts desirable while others felt that the public procurement process is too bureaucratic and laborious. Generally, those who had successfully participated in public procurement and collaborated with the public sector for a long time had a very positive image of public procurement and public organizations as contractual partners. Public procurement may be a good stepping stone for small companies and for start-ups in particular, since previous experience does not affect the selection process.

In The Municipality there was no shared view about how small businesses should be treated in public procurement and what their role should be in the first place. Even inside the same procurement department there were several opposing views. Others saw that The Municipality should somehow promote participation of SMEs, whereas others argued that it is not their job to feed small businesses if the municipality does not get any benefits. The Municipality is a large procurer and the situation may be even worse in other, smaller municipalities. In order to promote SME participation, municipalities should have a clear, shared vision about SMEs' role in public procurement and a strategy for their more active participation.

5.2 Contracts and tendering documents

The role of contracts cannot be ignored in public procurement. In the public sector contracts are essential and they form the starting point for the buyer-supplier relationship. The findings of the empirical study support the view that a properly prepared contract is a prerequisite for a successful contractual relationship, since the relationship and its contents are already defined in the contract. Deficiencies in contracts tend to cause problems in the contract implementation phase. In addition, other documents, such as invitations to tender and service descriptions, are critical in public procurement. Based on these documents, tenders are drafted, the final service is delivered, and the quality is monitored. Thus, the quality of tendering and contracting documents indicates the quality and success of the relationship.

At the moment contracts and contracting in the public sector are not very proactive. Both procurers and suppliers should understand contracts more as tools and enablers for collaboration. This is possible only when contracts truly enable collaboration. Thus, more attention should be paid to procurement planning and contract preparation. Inflexibility of contracts was a theme that came up in discussions several times. Too detailed contracts and service descriptions may hinder effective service delivery and co-development. In public procurement the contents of contracts cannot be modified after the contract has come into effect. If modifications are needed, new competitive tendering has to be executed. Inflexibility of contracts may cause problems if circumstances or needs change during the contract implementation phase.

Based on empirical material, the involvement of suppliers in the planning phase of procurement may be advantageous to both parties. Currently, suppliers' possibilities to influence the preparation of procurements seem to be practically nonexistent. However, suppliers are experts in service delivery and may be able to take into consideration more details than procurers. Thus, with suppliers' expertise invitations to tender, as well as contracts, might be of higher quality, enabling an effective and mutually beneficial contractual relationship.

5.3 Successful contractual relationship

Based on the literature review a successful contractual relationship in the context of public procurement seems to consist of two dimensions. *Relationship value* includes all the benefits gained through the relationship and *relationship quality* describes the characteristics and climate of the relationship itself. Relationship quality affects relationship value and vice versa. Relationship quality consists of elements such as trust and shared understanding, and knowledge sharing has a strong positive impact on both. On the other hand, a high level of trust and understanding also indicates effective knowledge sharing. In the public sector contracts define commitment as well as benefit and risk share and, therefore, these elements may not be as important as in the private sector.

These conclusions were supported by the findings of the empirical research. Both municipal officials and suppliers emphasized that even though the relationship needs to meet certain financial goals as well as other goals related for example to service quality, parties also have other, social or relational goals they hope to achieve. Contractual parties highlighted the importance of cooperation, commitment, communication, trust, understanding, and shared goals. Shared understanding was said to be crucial for effective collaboration and co-

development, and trust, in turn, decreases the need to monitor and control. Knowledge sharing was seen as an important determinant of a successful contractual relationship.

In the context of this study, trust refers to the contractual parties' confidence that other party will do everything included in the contract. Shared understanding, in turn, refers to shared goals and shared practices; contractual parties should understand what they are doing, why they are doing it, and how they are doing it. Commitment is a contradictory issue in public sector context. Contractual parties usually hope that the other party is committed to the relationship but, on the other hand, contracts with limited lengths restrict and regulate commitment.

Procurers and suppliers effectively have similar objectives related to relationship value and relationship quality but also divergent opinions emerged. Some procurer representatives wanted deeper partnerships and co-development with their suppliers, whereas others thought that suppliers should only do their work and no interaction is needed. Also procurers' and suppliers' opinions about the other party's objectives were somewhat contradictory. Suppliers accused the procurer of focusing only on cost and not being interested in service quality or co-development. Procurer representatives, in turn, claimed that suppliers only care about business and profit.

In a successful, high-quality and high-value relationship contractual parties are equal and benefits and risks are equally shared. However, in the context of public procurement it seems that the procurer, who drafts the contract and defines the contents of the service, is the more powerful party in the relationship. Some suppliers felt that it is the procurer who dictates and decides and suppliers just have to adjust. This kind of power asymmetry is harmful for the formation of a collaborative relationship.

In the private sector it is usually assumed that the customer is satisfied when the service delivered exceeds expectations or requirements (Ulaga and Eggert 2006). However, this may not hold true in public procurement where suppliers invariably change and it may be desirable to keep service quality unchanging. If the quality level is constantly exceeded and the supplier actually provides more than is expected, end users may get used to "too good service" and complaints may arise when a new supplier is being selected and the quality level gets worse. Thus, in public procurement the relationship may be most successful when quality levels are achieved but not exceeded.

5.4 Barriers and enablers of a successful relationship

When discussing the barriers and enablers of a successful relationship with the interviewees, an interesting phenomenon could be noticed. Both suppliers and procurers agreed that

participation in public procurement often is challenging, particularly for smaller companies. However, both parties blamed each other for these challenges. Suppliers argued that the procedures and inadequate substance matter expertise of the procurer, as well as poor information sharing, hinder their successful participation. Procurers, in turn, saw that challenges result from suppliers' lack of resources and tendering expertise.

Interestingly, the challenges remain the same from one industry to another, although some industry-specific problems were also reported. Thus, it seems that challenges relate to structures and practices of public procurement rather than to specific substance. Both small and large organizations reported same type of challenges, although smaller companies face resource-related challenges more often. Thus, there seems to be no fundamental hindrances for small businesses' successful participation in public procurement, as long as contract sizes remain moderate.

Service procurement was considered a more challenging process than the procurement of goods. Defining the contents of intangible services in a way that all actors understand them similarly is often difficult. The amount and characteristics of goods is usually easier to express in tendering and contracting documents. Selection criteria for services may be more subjective and also the quality of services may be more challenging to measure and monitor objectively. It was not found out how different procurement methods influence the success of a contractual relationship and whether some methods favor small businesses. This was not directly asked about either, but a cautious assumption may be made that the procurement method used does not have a significant impact on small business success.

Based on the empirical material, the main barriers to the formation of a successful contractual relationship seem to relate to knowledge sharing. This supports the previous arguments that knowledge sharing has a positive impact on a relationship's success. Knowledge sharing is needed in all three phases of the procurement process. In the planning phase the procurer needs to know what kind of solutions are available in the market and suppliers, in turn, need to get information about forthcoming tenders and the procurer's future plans. In the tendering phase knowledge needs to be successfully transferred from one party to another via different kind of documents. Finally, in the contract implementation phase, constant knowledge sharing and interaction is needed to ensure effective collaboration. Interaction should be continuous and reciprocal and not consist of single, one-way messages only.

Legislation was seen as a restrictive structure and accused of causing problems and hindering collaboration between the procurer and potential suppliers. An interesting observation was that municipal officials responsible for procurement were not always familiar with

procurement legislation. Wrong interpretations of law even led to avoidance of closer collaboration with potential suppliers. Also suppliers were quite unfamiliar with the legislation. They did not always understand the requirements and procedures of public tendering which led to failures. Thus, the lack of legal expertise and wrong interpretations of law, rather than the law itself, seem to be one hindrance to collaboration.

Suppliers' own experiences, both positive and negative, seem to be important enablers of a successful contractual relationship. Previous experiences help suppliers spot information about forthcoming contracts, draft successful tenders, and successfully deliver the service and interact with the procurer. Positive experiences encourage suppliers to seek out public contracts and negative experiences may help them learn from the past and avoid mistakes. On the other hand, negative experiences may also discourage suppliers from taking part in forthcoming tenders. The role of previous experience is, however, significant.

As mentioned earlier, the successful completion of the planning and tendering phases seems to have a great impact on the success of the contract implementation phase. During the planning and tendering phases the contents and activities of the contract implementation phase are defined. Supplier involvement in these phases might lead to better tendering and contracting documents which, in turn, enable successful collaboration in the contract implementation phase.

Part VI: Conclusions

In this final part of the thesis I will provide answers to the research questions. I will also discuss the reliability of the study as well as both theoretical and practical implications. Finally, topics for further research will be proposed.

6.1 Results

The purpose of this study was to build a broad understanding of collaboration between SMEs and public procurers and to find out the main factors inhibiting and promoting the formation of a successful contractual relationship between these actors. The initial research questions were the following:

1. **What are the elements and determinants of a successful contractual relationship in public service procurement?**
2. **What factors inhibit / promote the formation of a successful contractual relationship between small service providers and public procurers?**

Next I will answer these questions.

What are the elements and determinants of a successful contractual relationship in public service procurement?

Based on the literature review and the analysis of empirical material, a successful contractual relationship in the context of public service procurement seems to have the following characteristics:

- Contractual partners (as well as other stakeholders) find the relationship satisfactory and obtain value from it, both financial and non-financial
- The real needs of the procurer and end users are met
- Contractual partners understand and trust each other and have shared goals
- Knowledge is openly shared between contractual partners throughout the whole procurement process
- Defined service level is achieved but not exceeded
- Contract and tendering documents enable and support collaboration during the contract implementation phase

The success of a contractual relationship seems to consist of two dimensions: relationship value and relationship quality. Value includes both the financial and non-financial benefits achieved through the relationship by contractual parties. Non-financial value may finally

lead to financial value, for example in the form of reference. Relationship quality, in turn, refers to the characteristics and climate of the relationship and consists of trust and shared understanding. In the context of this study, trust refers to the contractual parties' confidence that other party will do everything included in the contract. Shared understanding, in turn, refers to shared goals and shared practices; contractual parties should understand what they are doing, why they are doing it, and how they are doing it. Relationship quality affects relationship value and vice versa. Knowledge sharing seems to positively affect the level of trust and understanding and, therefore, is maybe the most important determinant of a successful contractual relationship.

What factors inhibit / promote the formation of a successful contractual relationship between small service providers and public procurers?

Several barriers and enablers for the formation of a successful contractual relationship between small businesses and public procurers were found. In suppliers' opinion most of the enablers and barriers are issues that only the procurer has influence over. However, there are also factors that suppliers can influence. As indicated in the theoretical section, knowledge sharing seems to be the most important enabler, and the lack of knowledge sharing one of the major barriers. Knowledge sharing is needed in all phases of the public procurement process: planning, tendering, and contract implementation.

The basis for a successful contractual relationship is created already during the planning and tendering phases, and actually the activities of these phases define the collaboration and operations in the contract implementation phase. In the planning phase factors inhibiting the formation of a successful relationship relate to difficulties in obtaining information. Procurers are often unfamiliar with small companies and their offerings. Suppliers, in turn, do not get information about the procurers' needs, plans, and forthcoming contracts. These issues may hinder the successful planning of procurement. Procurer representatives and suppliers were not very familiar with the procurement legislation, which may also hinder interaction and suppliers' success throughout the procurement process, beginning from the planning phase. Long-term informing and any kind of interaction between the procurer and the markets are important enablers in the planning phase.

The official tendering phase is seen as the most challenging and restrictive phase of the procurement process. Finding suitable invitations to tender and drafting a competent tender takes a lot of resources, which small businesses often lack. Contract sizes and selection criteria may not favor small companies. Also the lack of suppliers' tendering expertise and the lack of procurer's substance expertise may hinder the successful completion of tendering phase. However, the transparency of tendering process, meaning the publicity of old tenders

and the possibility to ask questions, are important enablers. The most important enabler in this phase, however, seems to be suppliers' previous experiences from public tenders.

During the contract implementation phase problems rarely occur if earlier phases have been completed successfully. The success of contract implementation phase is, therefore, made upon during the planning and tendering phases. Limited length of contracts is one hindrance for a successful contractual relationship. Constant interaction and knowledge sharing between contractual parties, in turn, promote collaboration and success of a relationship.

The barriers faced by small and large companies are for the most part similar but small businesses tend to face resource related challenges more often. Thus, there seems to be no fundamental hindrances to small businesses' successful participation in public procurement, as long as contract sizes remain moderate and suppliers themselves take an active role. Also, since barriers remain the same from one industry to another, challenges seem to relate to the structures and procedures of public procurement rather than to specific subject matters. It was not found out whether different procurement methods influence the formation and success of a contractual relationship. It was not explicitly asked about either, but a cautious assumption may be made that the procurement method used does not have a significant impact on small business success or on business success in general.

6.2 Reliability of the study

In this subchapter I will discuss the reliability of the study. First I will evaluate the validity of the research and after that the limitations of the study are discussed.

6.2.1 Validity of the research

In qualitative research validity refers to research that is plausible, credible, trustworthy and defensible. Validity of the research can be explored through three validity dimensions: descriptive, interpretive, and theoretical validity. Descriptive validity refers to accuracy in reporting descriptive information and is especially important in this study, since one objective of the study is description. Interpretive validity refers to the degree to which informants' viewpoints and thoughts are accurately understood and presented and, finally, theoretical validity means that a theoretical explanation fits the data and is credible and defensible. (Johnson 1997)

There are several strategies to maximize validity. In this study the validity of the research findings was enhanced through triangulation, meaning the use of multiple research methods, multiple data sources, and multiple investigators. Data triangulation, meaning the use of several data sources, was ensured by interviewing and observing many informants from both

public organizations and from the private sector, from different industries, in different contexts and spaces, and at different times. Understanding social phenomena requires their examination under a variety of conditions. (Johnson 1997; Mathison 1988)

Investigator triangulation, meaning involvement of more than one investigator in the research process, is also considered good practice in enhancing especially the descriptive validity of research (Mathison 1988). In the PRO2ACT and VISO projects there were several researchers collecting and analyzing the data and the findings of my study were constantly reflected with other project team members. Thus, multiple investigators were present all the time and analysis does not rest on one person's interpretations only. Plenty of direct quotations in the empirical part of the study bring transparency to the research and enhance the interpretive validity of the study.

6.2.2 Limitations of the study

Some limitations must be taken into account. Both theoretical and empirical parts of the study include some limitations and they are next discussed.

Theory limitations

In the literature review a lot of research from the private sector and especially from IT outsourcing was utilized. Since the context is very different compared to public service procurement, some false assumptions and generalizations may have been done. However, the characteristics of the public sector and public procurement were taken into account and theories from the private sector were not directly used.

Outsourcing and buyer-supplier relationships have been widely studied in Asia, where environments, cultures and practices are somewhat different than in Europe and in Finland. Thus, the findings of these studies may not hold true in the Finnish operating environment. In order to minimize this weakness, studies from more similar European areas were also utilized.

The research field concerning buyer-seller relationships is very wide and plenty of different theories and perspectives exist. Even though this study combines findings of various studies, not all existing research could be included. The theory part of the study is somewhat limited, and for example more specific examination of the elements of relationship quality was not possible in the context of this study.

Data limitations

There are also some data limitations that could not be completely avoided. Interview data was gathered in the context of another research project with another focus. Because the data

was gathered before the research questions of this study were formed, straight answers were not always found. Thus, the initial framework based on the interviews is incomplete and must be viewed cautiously. On the other hand, because the literature review and the actual research was conducted after the majority of the data was gathered and analyzed, previous findings did not affect the progress of empirical research, and the procedure may actually be seen as a strength.

Interview data was derived from only two procurement cases, taking place in rather large municipality and focusing on the improvement of the procurement processes. This may reduce the generalizability of the results since the situation is somewhat different in other, especially smaller municipalities where resources are scarce and procurement is not in the focus of improvement. Private organization representatives, however, told about their experiences more widely than only in the context of these specific cases and some of the companies had been collaborating with smaller municipalities as well.

In a qualitative study, the possibility of misinterpretations must always be considered. I was personally involved in the majority of interviews, which helped to form a realistic image of informants' responses. During the study other members of the research team were also present and, therefore, more than one perspective was always formed through continuous reflections with the team.

The initial sample of interviewees was limited. Because the focus of the PRO2ACT project was on municipalities, mainly municipal officials were interviewed. The share of suppliers was quite small and only five small business representatives were actually interviewed. Interviewees formed also quite a homogenous sample, only representing the cleaning and construction industries. Also, properly speaking, construction is not defined as a service even though many construction companies provide service-like solutions. However, these limitations were compensated for by using more versatile data from the simulation day and the workshop. Also, the challenges faced in public procurement seem to be very similar regardless of the industry.

The initial objective of the workshop was to gather a large sample of small business representatives and originally 17 registrations were received. Unfortunately, a lot of last-minute cancellations occurred and only eight participants finally showed up. However, these eight participants formed quite a heterogeneous group and maybe due to the small number of participants the atmosphere and conversations were confidential and informal. Business representatives taking part in the workshop, however, must have been somehow interested in public procurement and their opinions may not represent the general view. Some of the participants, however, had no previous experience from public procurement at all.

6.3 Theoretical implications

Because of the limitations discussed in the previous paragraph, no extensive theoretical generalizations can be done based on this study. However, a tentative theoretical framework of the elements of a successful contractual relationship, as well as other important theoretical considerations, were made based on the findings of this study.

In public procurement buyer-supplier relationships have, at least partly, same kind of characteristics as in the private sector. The supplier delivers something the procurer does not produce itself and collaboration is controlled by a contract. However, even though the idea of buying remains the same, there are several differences that are likely to influence the relationship.

In public procurement the formation of a successful buyer-supplier relationship is more challenging than in the private sector, mainly because of regulations. Legislation and the important role of contracts make buyer-supplier relationships and their formation more formal and regulated in the public sector. Power asymmetry between contractual parties may also hinder the formation of a close relationship. This study also proposes that in the public sector exceeding the defined quality level may not be as positive a thing as it might be in the private sector.

The success of a contractual relationship seems to consist of two dimensions: relationship quality and relationship value (Figure 14). Both dimensions affect each other and contractual parties find both dimensions important. Value includes both the financial and non-financial benefits achieved through the relationship by contractual parties. Relationship quality describes the characteristics of the relationship itself. The most important elements of relationship quality in the public procurement context seem to be trust and shared understanding, and knowledge sharing has a positive impact on both. On the other hand, it also seems that relationship quality and relationship value affect the level of knowledge sharing.

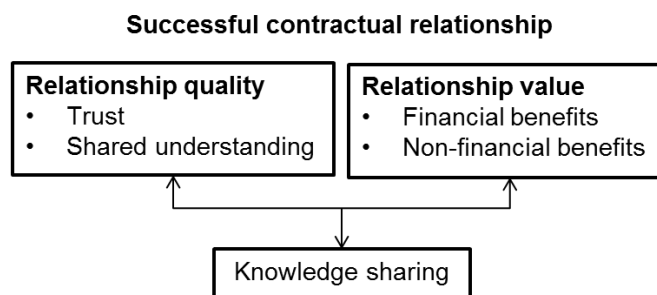


Figure 14: Theoretical framework for a successful contractual relationship

6.4 Practical implications

The focus of the study was on businesses and the initial goal was to find out what companies could do in order to succeed better in public tendering. However, according to the empirical material it seems that the success of small companies largely depends on the operations of procurers. The procurer makes all the crucial decisions related to contract sizes, schedules, selection criteria, and procurement procedures, and often small businesses' opportunities to succeed are dependent on these factors.

Nevertheless, there are also some actions that small companies can take in order to enhance their opportunities to succeed in public procurement. The lack of market dialogue is one of the major barriers and often the procurer is accused of that. However, companies should also take responsibility for marketing their services actively to public procurers and taking part to events that procurers arrange. Public procurers do not necessarily have resources to scan the markets properly and small businesses and their services may remain unfamiliar to procurers.

There are several online services that may ease the tendering process. Also consultancy services may be helpful if the tenderer lacks legal and tendering expertise. Since previous experience seems to be one of the most important enablers, learning through own successes and mistakes is useful. Companies should also utilize the transparency of public procurement. Old tenders are public and companies can learn a lot by sifting them through. Tenderers should also exploit the opportunity to ask questions related to the tender more actively and approach the procurer if there is something confusing in the tendering documents. Giving feedback to the procurer after the tendering may be helpful, too.

6.5 Suggestions for further research

Because of the quite small data set and some deficiencies in empirical data, the formation of a successful contractual relationship in the context of public procurement should be more widely studied, including companies from various industries and municipal officials from smaller municipalities. In this study, the goals of the contractual parties were only superficially studied and it would be interesting and useful to find out more specifically what benefits small businesses gain from taking part in public procurement. Thus, it should be studied when it is profitable for small businesses to participate in public tendering, what they expect to get from a contractual relationship, and what they actually get.

This study focused only on contractual parties, the procurer and the suppliers. However, in public service procurement the final end user of services is often the citizen. Thus, citizens' role and opportunities to influence public procurement should be also studied. Also the

interaction between the three actors, the procurer, the supplier, and the end user, offers several interesting research possibilities.

Since the important role of the planning phase was discovered in this study, the planning phase should be more widely studied in future research. Forums and channels for the interaction between public procurers and suppliers are needed. Also the role of contract and tendering documents, as well as the influence of these documents in collaboration of contractual parties, should be studied further.

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Appendices

Appendix I: Interview questions

The interviews were made in Finnish. Here, the questions have been translated into English.

I. Warm-up

- a. Name, organization, job description?
- b. Role in the case study process?

II. Goals

- a. What are your goals in the procurement process?
- b. What kind of goals do other parties have?
- c. How did your goals change during the process?
- d. How could parties be better aware of each other's goals in the future?

III. Roles and responsibilities

- a. What things/tasks do you think you are responsible for?
 - i. What is your most important motivator?
 - ii. What things/tasks do you think others are responsible for?
 - iii. Do you feel that you are not always able to complete your tasks properly because someone else has failed to do his/hers share?
- b. Are roles and responsibilities clear? (between departments)
- c. What changes should be done in responsibilities?

IV. Collaboration

- a. How was collaboration in the process? (With whom?)
- b. How do you benefit from the expertise of others?
- c. Do you feel you are able to bring out your own perspective?
- d. What kind of cooperation do you wish there to be in the future?
- e. Do you seek for partnership style cooperation with suppliers?

V. Preparation of contract

- a. Suppliers: How did you get information about the invitation to tender? Why did you decide to take part in tendering? / Why not? Were there any discrepancies in the invitation to tender?
- b. Do you get enough good tenders?
- c. How did you choose the procurement procedure? Experiences from different procedures?
- d. Is product specification usually successful? How about the extent of procurement?
- e. What has to be taken into account when preparing an invitation to tender / a tender?
- f. Who takes part in preparation? How would you describe collaboration?
- g. Are you familiar with the market? Should market dialogue be improved?
- h. What is most challenging when comparing tenders?

VI. Contract monitoring

- a. Are risks fairly/efficiently shared in contractual relationships?
- b. Are practices consistent with the contract?
- c. Are the lengths of contracts suitable?
- d. How are contracts monitored?
- e. Do you feel the procurement was successful? Why?
- f. How does budgeting affect procurement?
- g. How do you prepare for the change of supplier?

VII. Development

- a. Who gives feedback? What kind of feedback?
- b. How are previous experiences utilized?
- c. What should procurement experts, representatives of municipal sectors, and suppliers learn from each other? How could knowledge be transferred?
- d. Is end user taken into account? How this could be improved / is it even necessary?

VIII. Procurement in municipal organization

- a. Which regulations (legislation, instructions, strategies) is your job based on?
- b. Underground economy and its influence on procurement?
- c. Differences between cleaning services and construction?
- d. How do you see the procurement process? (procurement and its role in municipal organization)
- e. How does municipal procurement look in 5-10 years?

IX. Who else should we interview?

X. Questions? Wishes?

Appendix II: The program of the simulation daySimulation day
28.11.2011

8.30 – 8.45	Registration
8.45 – 9.15	Welcome
9.15 – 10.30	Process simulation: cleaning service procurement
10.30 – 10.40	Break
10.40 – 12.00	Process simulation: construction work procurement
12.00 – 13.00	Lunch
13.00 – 14.30	Group workshops
14.30 – 14.45	Break
14.45 – 16.00	Conclusions
16.00	End of the simulation day

Appendix III: The program of the future workshop

Future workshop

17.4.2013

8.45 – 9.00	Registration
9.00 – 9.30	Welcome
9.30 – 10.00	Sharing positive and negative experiences from public procurement in small groups
10.00 – 10.15	Break
10.15 – 11.45	Future recalling: Forming an ideal future public procurement environment - Group 1: Interaction between procurers and suppliers before the competitive tendering phase in 2018 - Group 2: Interaction between procurers and suppliers in the contract implementation phase in 2018
11.45 – 12.00	Conclusions
12.00	End of the workshop