

Aalto University  
School of Science  
Degree Programme in Information Networks

Asta Länsimies

# **Market dialogue in public procurement**

## **Defining market dialogue with service-dominant logic**

Master's Thesis  
Espoo, January 27, 2014

Supervisor: Professor Riitta Smeds, D.Sc. (Tech.)  
Instructor: Soile Pohjonen, LL.D.  
Marika Noso, M.Sc.(Econ.)

<b>Author:</b>	Asta Länsimies	
<b>Title:</b>	Market dialogue in public procurement Defining market dialogue with service-dominant logic	
<b>Date:</b>	January 27, 2014	<b>Pages:</b> ix + 101
<b>Professorship:</b>	Business processes and services in digital networks	<b>Code:</b> TU-124
<b>Supervisor:</b>	Professor Riitta Smeds, D.Sc. (Tech.)	
<b>Instructor:</b>	Soile Pohjonen, LL.D. Marika Noso, M.Sc.(Econ.)	
<p>A significant share of the goods and services used by the public sector in Finland are procured from private suppliers through competitive tendering. Successful public contracts are hindered by the lack of end user and company involvement and the view on procurement as a strictly transactional legal process. Market dialogue is seen as an important means of improving procurement. However, no definition exists for market dialogue and clarification of its opportunities is needed.</p> <p>The goal of this study is to find a definition for market dialogue in the Finnish public procurement context, with a focus on municipalities. A theoretical viewpoint of service-dominant logic was utilized in developing a framework for market dialogue and its role in a service-oriented procurement process. The empirical data consists of three case studies made in two large Finnish municipalities and two workshops. The data was collected and analyzed using qualitative methods.</p> <p>Market dialogue is an encounter process between the public and the private organizations as well as end customers. The main objective of market dialogue is to help the procurement process to reach its goals: a successful contract that serves all participants' needs. The participants of market dialogue are procurement professionals and substance experts of the municipality, end users and private companies. Diverse communication methods can be utilized in market dialogue.</p>		
<b>Keywords:</b>	public procurement, service-dominant logic, market dialogue	
<b>Language:</b>	English	

<b>Tekijä:</b>	Asta Länsimies		
<b>Työn nimi:</b>	Markkinavuoropuhelu julkisissa hankinnoissa		
<b>Päiväys:</b>	27. tammikuuta 2014	<b>Sivumäärä:</b>	ix + 101
<b>Professuuri:</b>	Liiketoiminta- ja palvelu- prosessit tietoverkostoissa	<b>Koodi:</b>	TU-124
<b>Valvoja:</b>	Professori Riitta Smeds, TkT		
<b>Ohjaaja:</b>	Soile Pohjonen, OTT Marika Noso, KTM		
<p>Merkittävä osuus Suomen julkisen sektorin käyttämistä tavaroista ja palveluista hankitaan yksityisiltä yrityksiltä kilpailuttamalla. Loppukäyttäjien ja yritysten vähäinen osallistaminen ja hankinnan näkeminen yksinkertaisena vaihdantaprosessina vaikeuttavat onnistuneiden sopimussuhteiden syntyä. Markkinavuoropuhelua pidetään tärkeänä kehityskohteena, mutta yhtenäistä määritelmää markkinavuoropuhelulle ei ole olemassa.</p> <p>Tämän tutkimuksen tavoite on määritellä markkinavuoropuhelu Suomen julkisten hankintojen kontekstissa, erityisesti kuntien näkökulmasta. Jotta arvontuominen julkisissa hankinnoissa olisi kokonaisvaltaista, markkinavuoropuhelun teoreettisen kehyksen luomisessa hyödynnetään palvelulogiikan (service-dominant logic) näkökulmaa. Empiirinen aineisto kerättiin ja analysoitiin laadullisin menetelmin. Pääosa aineistosta koostuu kolmesta suuriin kuntiin sijoittuvasta tapaustutkimuksesta, sekä erillisistä työpajoista.</p> <p>Markkinavuoropuhelu on kohtaamisprosessi kuntien ja yritysten sekä loppuasiakkaiden välillä. Markkinavuoropuhelun tärkein tavoite on auttaa hankintaprosessia pääsemään tavoitteeseensa: toimivaan sopimukseen joka palvelee kaikkien osapuolten tarpeita. Markkinavuoropuhelun osallistajat ovat kunnan hankintaosaajat sekä substanssiasiantuntijat, loppukäyttäjät sekä yksityiset yritykset. Monia tapoja ja menetelmiä voidaan hyödyntää vuoropuhelussa riippuen hankinnan vaiheesta.</p>			
<b>Asiasanat:</b>	julkiset hankinnat, palvelulogiikka, markkinavuoropuhelu		
<b>Kieli:</b>	Englanti		

# Acknowledgements

One important chapter in my life is closing to an end. Before I venture out to the real world for good, some words of gratitude are in order.

This thesis was written as a part of VISO project in the SimLab research unit of Aalto University. I want to thank Katja Koskelainen for giving me an opportunity to work in the project and for changing my views on lawyers. My instructors, Soile Pohjonen and Marika Noso have patiently supported me through this thesis journey, not to mention my fellow research assistants - Suvi, Ulla, Otso and Nora, who brought creative disturbances to each day. The VISO team did not have a single meeting without laughter. I also want to thank my supervisor Riitta Smeds for creating the unique, multidisciplinary atmosphere of SimLab and giving me valuable feedback in scientific writing.

Finally, I want to thank my friends who have made my student life the best time of my life so far. You know who you are. Mom and dad, thanks for allowing me to become a teekkari with restless feet.

Espoo, January 27, 2014

Asta Länsimies

# Abbreviations and Acronyms

HILMA	The official electronic web-based procurement notification channel, administered by Ministry of Employment and Economy in Finland, in which procuring entities publish their contract notices that exceed the national thresholds
TED	Tenders Electronic Daily, a supplement to the Official Journal of the European Union

# Contents

<b>Abbreviations and Acronyms</b>	<b>v</b>
<b>1 Introduction</b>	<b>1</b>
1.1 Background and motivation . . . . .	1
1.1.1 PRO2ACT project . . . . .	6
1.1.2 VISO project . . . . .	7
1.2 Research questions . . . . .	8
1.2.1 Scope of the research . . . . .	9
1.3 Research process . . . . .	10
1.4 Research methods . . . . .	12
1.4.1 Qualitative research approach . . . . .	12
1.4.1.1 Abductive reasoning . . . . .	12
1.4.2 Case study . . . . .	14
1.4.3 Literature review . . . . .	15
1.5 Structure of the Thesis . . . . .	15
<b>2 Theoretical background</b>	<b>17</b>
2.1 Public procurement . . . . .	17
2.1.1 Principles of Public Procurement . . . . .	17
2.1.2 The Finnish Act on Public Contracts . . . . .	19
2.1.2.1 Tender process . . . . .	21
2.2 Service procurement . . . . .	23
2.3 Market dialogue . . . . .	25

2.3.1	Technical dialogue . . . . .	25
2.3.2	Market dialogue in literature . . . . .	27
2.4	Service-dominant logic . . . . .	27
2.5	Value co-creation process . . . . .	30
2.6	Theoretical framework . . . . .	32
2.6.1	Public procurement defined with service-dominant logic . . . . .	32
2.6.2	Public procurement as a value co-creation process . .	35
2.6.3	Market dialogue definition . . . . .	37
2.6.4	Role of market dialogue in transforming procurement process logic . . . . .	37
<b>3</b>	<b>Empirical study</b>	<b>39</b>
3.1	Data collection and analysis methods . . . . .	39
3.1.1	Description of the case studies . . . . .	39
3.1.2	Interviews and simulation day . . . . .	40
3.1.3	Observation of future and market dialogue workshops	42
3.2	Market dialogue in public procurement . . . . .	45
3.2.1	Case descriptions . . . . .	45
3.2.1.1	Dental technical laboratory work . . . . .	45
3.2.1.2	Wood- and metalworking machines . . . . .	46
3.2.1.3	Cleaning service . . . . .	47
3.2.2	Goals of market dialogue . . . . .	50
3.2.3	Participants . . . . .	57
3.2.4	Means and methods . . . . .	63
3.3	The role of market dialogue in transforming the dominant logic of public procurement . . . . .	77
<b>4</b>	<b>Discussion</b>	<b>79</b>
4.1	Market dialogue . . . . .	79
4.2	Dominant logic transformation potential of market dialogue	81

<b>5</b>	<b>Conclusions</b>	<b>83</b>
5.1	Results . . . . .	83
5.2	Evaluation of the research . . . . .	85
5.3	Theoretical implications . . . . .	87
5.4	Practical implications . . . . .	88
5.5	Suggestions for future research . . . . .	88
	<b>Bibliography</b>	<b>90</b>
<b>A</b>	<b>Interview questions</b>	<b>95</b>
<b>B</b>	<b>Program of future workshop</b>	<b>98</b>
<b>C</b>	<b>Program of market dialogue workshop</b>	<b>99</b>
<b>D</b>	<b>Market dialogue process model</b>	<b>100</b>



# List of Figures

1.1	Research process . . . . .	11
1.2	Abductive reasoning (adapted from Kovacs and Spens (2005))	13
2.1	Public procurement process, adapted from Koskelainen et al. (2013) . . . . .	21
2.2	The foundation premises of service-dominant logic and their application to the context of public procurement (developed from Vargo and Lusch (2004, 2008), inspired by Smeds et al. (2010)) . . . . .	34
2.3	Public procurement as a value co-creation process . . . . .	36
2.4	Role of market dialogue in the public procurement value co-creation process . . . . .	38
3.1	Interviewees and simulation day participants of PRO2ACT, 2011 . . . . .	41
3.2	Workshop participants, VISO 2013 . . . . .	43
3.3	Goals of market dialogue . . . . .	57
3.4	Participants of market dialogue and their primary activities	63
3.5	Means and methods of market dialogue between different participants . . . . .	76

# Chapter 1

## Introduction

### 1.1 Background and motivation

#### Challenges in Public Procurement

The production of public services has a major significance on Finland's economic situation on both private and public sectors. The public sector accounts for 56 percent of the GDP in Finland (Eurostat, 2012). The sector comprises of the central government, governmental authorities and local authorities, such as cities and other municipalities. These authorities have certain tasks and responsibilities towards their citizens. Of these responsibilities, providing public services, such as security, healthcare, and education are central. Part of these services are produced by the municipalities themselves, but a growing part is procured from private service providers. Managing the process of securing good public services to citizens is ever more important now, when the public economy is facing pressure for savings and structural change. In order to keep the municipalities on a financially sustainable track and simultaneously provide satisfactory services to the aging population, it has been proposed that the public sector should increase cooperation with private service providers (Lith, 2012).

The citizens are the beneficiaries of public services. Thus the goal of

producing these services should be the municipal residents' and the end-users' well-being. The end-users are citizens, but also tax-payers, who pay taxes to be able to receive the benefits of public services. It is in their interest to have these services produced well, and to have the public funds effectively spent at the same time. Nevertheless, the citizens and end-users of public services are not very much involved in municipal decision-making. Often the objective in the municipality is to adhere to administrative procedures and the act of public procurement.

In Finland, public procurement accounts for approximately 32 percent of the municipalities' operating costs (Lith, 2012). In most cases, if the public authority is procuring goods or services that exceed the threshold value of 30 000, the Finnish Act of Public Procurements (30.3.2007/348) should be applied. The law requires a formal tender process. In the open procedure, which is the most commonly used procurement procedure, the requirements in the contract notice and in the invitation to tender need to be set prior to receiving any offers, and the tender cannot be changed afterwards in order to ensure non-discriminating and unbiased procurement process for all tenders.

In contrast, on the private market the same rules do not apply and a company can buy the goods and services it needs freely from the market. They can adjust their buying procedure to the situation and change the specifications during the process more easily. Thus, they can focus on buying in a way that fits their goals and needs. The municipality, on the other hand, has to lock the specifications before it can release the invitation to tender. Since the procurement law only governs competitive tendering, municipalities tend to focus solely on following the procedure, and leave the part that is not governed by law to very little consideration. The procurement defined by the law does not include most activities that a successful procurement process would require. The focus on strictly following the procurement law and ignoring the preparation and contract implementation phases both result in seeing procurement as a set of simple

transactions. This distorts the people working with procurement to have not ending up in market court as their main goal - instead of achieving the best possible outcome. Procurement is not seen as a whole process that includes the preparation, planning and contract follow-up and all actions that support the process to reach its goals. Some procurement officials even interpret the law so strictly, that dialogue with companies besides the official process is seen as completely prohibited. In the light of these mindsets and attitudes, it is not surprising that the actual reason for procuring goods and services is often forgotten. The end user is quite rarely visible in the procurement process. (See for example Iloranta and Pajunen-Muhonen, 2012; Lundstrom, 2011; Karisto and Lohivesi, 2007)

### **Market dialogue as a tool for value co-creation**

A new kind of mindset is needed in public procurement. Cooperation and dialogue have been observed to enable successful public contracts (Patajoki, 2013). A successful contract is a contract that realizes procurement objectives and enables a satisfactory end result. In order for services to fulfill the need of the customer, the parties of public procurement should improve communication between all the different stakeholders. To simultaneously make budget savings possible, they should focus on developing cooperation in order to achieve more efficient public services.

In order to fulfill the needs of end users, the end users in the context of public procurement must be identified. Naturally the residents of the municipality are at the receiving end of public services. On the other hand, not all goods and services are provided directly for the end customer, also the municipalities' functional units and their employees are end users. For example, a dentist who provides dental care to a patient, is an actual user of the dental care instruments that help her to give dental care to the end user. Thus, there is usually more than one user in the service process, and users in different phases of the service process have different needs.

The municipal residents should be the beneficiaries of public services.

The procurement mindset should be changed to promote the role of end user and shift the focus to a more communication and cooperation oriented - instead of the current transaction oriented view, where the administrative processes play the most important role. In recent years, a theory of service-dominant logic has been developed to portray the view of service or product value creation as interactional (Vargo and Lusch, 2004, 2008). Vargo and Lusch state that the value of a product or service is never created by simple transactions between the buyer and producer, but in co-creation with the user. Actually, value is never created by the service producer, it can only produce value propositions for the customer. In the end it is the end user who determines the value, and is always co-creating the service together with the producers. Every stakeholder involved in procurement preparation, competitive tendering and finally contract implementation are part of a network that creates the value proposition of a service to the end customer.

Vargo and Lusch (2004) argue that since the industrial revolution, the economic exchange has been modeled with a dominant logic focused on tangible resources, embedded value and transactions. This goods-dominant logic is the opposite of service-dominant logic. Although the economic thought has shifted towards a service-dominant view in the recent decades, the transaction-oriented goods-dominant logic is still prevalent in the society. As described earlier, also in public procurement the general view is following goods-dominant logic. Additionally, the traditionally very transaction-focused legal thinking is reinforcing the goods-oriented view to remain constant. Vargo and Lusch have presented the differences of these views and argue that a shift from product-orientedness to a service-dominant mindset is necessary. This paradigm shift is visible in the entire economic system, and also emerging in the public sector. Thus, also public procurement should be approached with a service-oriented view. Therefore, in order to find ways to develop the operational focus of public procurement, the viewpoint of service-dominant logic has been chosen to

provide relevant theoretical background for this study.

Accordingly, the procurement professionals should focus more on collaboration and dialogue with all members of this network to be able to create value propositions for the end users, that eventually will result in real customer-value.

Many Finnish municipalities have already begun to develop their procurement processes. Prominent directions of development have been, for example, approaching the contracting process proactively, developing professional competence of procurement officials and giving procurement a strategic position in the municipality organization. In addition, the view of the procurement process has been widened to include every step starting from planning to implementation, in order to better achieve the goals of procurement. (See for example Pohjonen and Koskelainen, 2012; Koskelainen et al., 2012)

Moreover, the concept of market dialogue has been discussed increasingly over the last few years. Some municipalities have developed ways of having dialogue with service provider companies especially in the preparation phase of procurement and developed their collaboration with various other stakeholders. Also continuous dialogue is taking place even without any upcoming tendering, in order to keep both procurers and companies informed about long-term development. The dialogue with companies is often referred to as market dialogue. Although commonly used, the term has not been defined, and no in-depth studies of the subject have been made in Finnish public procurement context. A Government Bill (HE2006/50) only mentions technical dialogue and request for information as means of obtaining information from the market. However, these two procedures are examples of one-way communication and offer very limited dialogue - no collaboration with other stakeholders such as end users is mentioned, thus they are not currently considered to be enough for achieving successful procurement.

Both procuring authorities and companies want more dialogue and con-

sider that there is far too little of it currently. In order to both clarify the meaning of market dialogue and find ways to make use of it in public procurement, this study was chosen to be made. Although the phenomenon of communication and dialogue between public and private actors is not a new one, it is relevant to define and study the concept of market dialogue in the Finnish context, since there has not been a clear picture of what communication is allowed within the boundaries of the law.

The goal of this study is to define the concept of market dialogue within the Finnish municipal procurement context. Another point of interest is the role of market dialogue in the current procurement process.

### 1.1.1 PRO2ACT project

PRO2ACT (Proactive Contracting Processes in Public Procurement – Promoters for Partnership and Co-innovation) was a research project carried out in SimLab research unit (Department of Industrial Engineering and Management of Aalto University School of Science). The project was funded by Tekes (the Finnish Funding Agency for Technology and Innovation), Aalto University, partner cities, and Kuntaliitto (Association of Finnish Local and Regional Authorities), lasting three years from September 2010 until August 2013.

The objective of PRO2ACT was to study and develop municipal procurement contracting processes in both pre- and post-contract award procurement and during the contract period.

The project included two subprojects, where five different open procedure procurement cases from cities of Espoo and Jyväskylä were modeled using the SimLab<sup>TM</sup>-method. These projects resulted in process models and idea portfolios for the cities to develop their procurement functions.

After these projects, a general process model for procurement contracting was created based on proactive contracting principles. The model was made for the benefit of all municipalities, in cooperation with representatives from Kuntaliitto.

For this study, PRO2ACT provided findings that helped to form the research problem and research questions. Interviews and observations from three procurement cases were also used as empirical data of this study, although I was not involved in data collection.

### 1.1.2 VISO project

VISO (Visualized boundary objects for public procurement contracting) is a two-year (October 2012 to September 2014) strategic research opening project funded by Tekes and Aalto University. As a strategic opening, VISO studies directions for future research. The objective of the project is to open up novel approaches to public procurement contracting by asking:

1. Which are the essential expertise viewpoints in a successful procurement,
2. What kind of interaction is required between the expertise quarters, and
3. With what kind of user-friendly methods and tools (boundary objects) can the mutual understanding and collaboration be promoted.

Another objective of the VISO project is to identify the nature of the challenges in small and medium-sized enterprises (SMEs) and public procurer collaboration. The research has identified factors that hinder and advance demand-driven co-innovation and knowledge sharing. Also, what kind of boundary objects foster SMEs' motivation and capabilities to take part in public tenders, facilitate the collaboration between public procurers and SMEs, and motivate knowledge sharing and co-designing is studied in the project.

This study was conducted within the VISO project, which provided a direction for choosing the research problem. During VISO, I collected empirical data by facilitating two workshops.



## 1.2 Research questions

In this section, the research problem and research questions are briefly described. Market dialogue is an unspecified concept in the context of Finnish public procurement. Therefore, defining market dialogue is the focus of this study. As explained in the beginning of this chapter, there is a noticeable gap between the transaction-oriented view of public procurement and the more customer-oriented service-dominant logic. Additionally, the process of procuring public services and goods needs redefining from the service-dominant logic and value co-creation perspectives, since market dialogue has been suggested to enable value co-creation.

The research questions were formed after reading through the interview data of PRO2ACT project and the initial literature review. The interviews revealed the transaction-oriented mindset of municipality officials. More importantly, the theme of market dialogue emerged from the interview data.

1. What is market dialogue in public procurement?
  - (a) What are the goals of market dialogue?
  - (b) Who are the participants of market dialogue?
  - (c) What means and methods can be used in market dialogue?

With the first research question, I aim to investigate how can the participants of public procurement process share, transfer and co-create knowledge in addition to competitive tendering, and why this should be done. This means all dialogue that is not specifically required by law. The concept of technical dialogue (HE2006/50) is not a synonym for market dialogue. Technical dialogue is only mentioned to be used for a certain purpose and only between a procurer and potential service providers. Market dialogue is a wider phenomena. Simply put, all technical dialogue is market dialogue, but not all market dialogue is technical dialogue.

In light of previous research, it is not clear who are the relevant participants of market dialogue, and which purposes each of these participants serve in market dialogue. In order to understand the phenomena and define the relevant participants and means for market dialogue, we first must establish what are the overall goals of market dialogue.

2. What is the role of market dialogue in the transformation from product to service-dominant logic in public procurement process?

With the second research question, an understanding about the role of market dialogue in the entire procurement process is investigated. Thus, an understanding will be formed of how the current product-oriented logic of public procurement can transform into a service-dominant logic. The hypothesis is that service-dominant procurement logic would incorporate market dialogue as an important component.

The research questions will be answered by first exploring market dialogue via findings in current literature. The initial answer to research question 1 will be provided. As there is a gap in current research concerning market dialogue, this view will be complemented by theoretical findings from the fields of service procurement, service-dominant logic and value co-creation processes. The new framework will give initial answers to both the research questions 1 and 2.

The theoretical framework will be validated and expanded through the analysis of empirical data. The empirical material will deepen the view of market dialogue and the operational understanding of its goals, participants, as well as means and methods.

### **1.2.1 Scope of the research**

This study is focusing on procurement where the open procedure is used. According to current legislation, the open procedure should be used primarily, thus it is the most commonly used procedure in Finland. The limi-

tation is made since the initial interview data was deliberately collected for a case study concerning open procedure procurement processes.

The objective of this study is to define market dialogue in the context of public procurement in Finnish municipalities. Co-operation and dialogue between the buyer and the potential provider has been studied before in various contexts, in both private and public-private context, but not in the Finnish public procurement context. This research does not focus on studying the phenomenon as a whole, the goal is to define market dialogue from the Finnish municipalities' and their stakeholders' point of view, in the context of public procurement using the open procedure. This study is limited to municipalities' procurement, but since the governing legislation is the same for other public contracting authorities, the results of this study can with caution be applied to the public sector in a broader sense.

The involvement of political decision-making of municipalities in procurement is not within the scope of this study. Although the municipal committees and the city council form the strategies that guide procurement, the focus here is mostly on the operational side of procurement. The strategic decisions in the background should be acknowledged, but are not in the focus in order to maintain a reasonable scope for a thesis. The empirical data has also been collected from an operational point of view.

### **1.3 Research process**

Foundations for this study were laid in two developmental simulation projects carried out in PRO2ACT project in 2011. All the interviews used as data in this study were conducted as a part of these projects.

The VISO project was initiated based on the ideas and challenges found during the PRO2ACT project. The writer started working in VISO project in the spring of 2013 and participated in organizing of future workshop. The future workshop was directed to small and medium sized enterprise representatives, and focused on discussing the experiences they had about

public procurement.

Based on the existing interview and simulation workshop data from PRO2ACT and VISO workshop results, the research problem was chosen and the initial research questions were formulated. Lack of market dialogue in the planning phase seemed to be causing problems in later phases of the procurement process. On the other hand, there was a gap in scientific research concerning market dialogue.

By studying the empirical interview data, a view of how services are procured by public contracting authorities was constructed. Findings related to market dialogue were then analyzed and an initial framework and definition of market dialogue in public procurement was created. A theoretical background for market dialogue was studied using previous literature on public procurement, service procurement and service-dominant logic of marketing. Then, the theoretical framework of market dialogue in public procurement was merged with the empirical findings. This model was then tested in a workshop with representatives from public contracting authorities and companies participating in public tenders.

Finally, a definition for market dialogue in public service procurement is suggested. The entire research process is illustrated in figure 1.1.

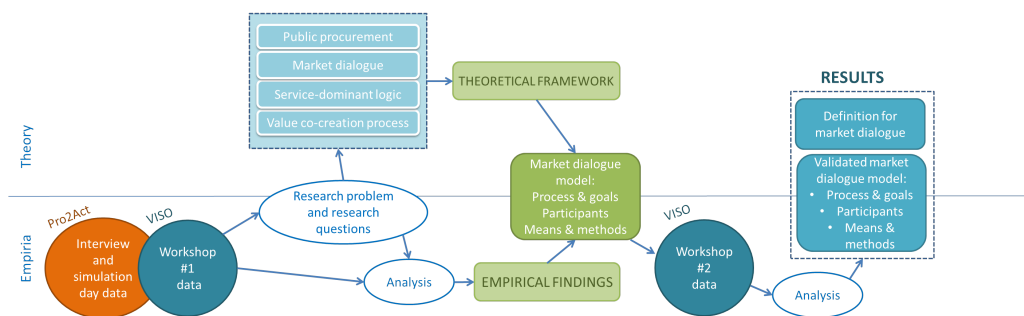


Figure 1.1: Research process

## 1.4 Research methods

In this section, the research methods used in this study are described.

### 1.4.1 Qualitative research approach

This study was conducted using a qualitative approach. Qualitative approach is in many instances the only way of obtaining data on areas where quantitative data collection techniques will not be enough (Glaser and Strauss, 2009) It allows the researcher to get at the inner experience of participants, to find out how meanings are formed, to study complex relationships and systems. With qualitative research, experiences can be connected with the larger context in which they are embedded. Also, processes of action or interaction that take place as responses to events, can be described in order to find a more complete explanation. In contrast to quantitative research, one aim of a qualitative study is to discover variables instead of testing them. (Corbin and Strauss, 2008)

Qualitative research usually utilizes one or more of the following sources of data: interviews, observations, videos, documents, drawings, diaries, memoirs or newspapers to name a few (Corbin and Strauss, 2008). In this study, semi-structured interviews and observation of workshops were used. Qualitative research methods are commonly used in case studies. Since the interview data for this study was collected and analyzed in three case studies, the method is described briefly in the following section.

#### 1.4.1.1 Abductive reasoning

In-depth case studies provide the best way to understand the interaction between a phenomenon and its context. Researchers are utilizing different reasoning approaches in their theory building. Deductive, inductive and abductive reasoning are three different reasoning approaches that aim to find understanding in between previous literature and empirical evidence.

In a purely deductive research process, theoretical conclusions based on existing theory are tested empirically. In an inductive approach, prior theoretical knowledge exists but the final framework is derived inductively from empirical observations. (Dubois and Gadde, 2012)

The third approach, abduction, stems from the realization that often the great scientific advances do not follow the pattern of deduction nor induction (Taylor et al., 2002). The emphasis of abductive reasoning is to find suitable theories to an empirical observation (Kovacs and Spens, 2005). Dubois and Gadde (2012) call this process “theory matching” or “systematic combining”. The researcher iterates constantly between theory and empirical observations in order to understand both theory and the real life phenomena better.

The abductive reasoning approach is suitable to this study, since the aim is to establish a novel theoretical framework, and the different phases of the empirical study could be fine-tuned according to the theory matching made during the analysis. The figure 1.2 describes the abductive reasoning process.

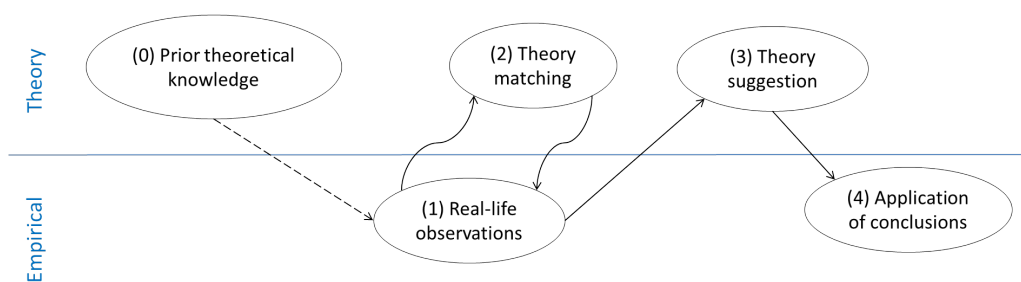


Figure 1.2: Abductive reasoning (adapted from Kovacs and Spens (2005))

### 1.4.2 Case study

The interview data used in this study was gathered for a case study. This data was analyzed using within-case and cross-case analysis.

Case study is a research strategy that attempts to examine a contemporary phenomenon in its real life context. In case studies, the boundaries between the studied phenomenon and its context are not evident. The approach is especially appropriate on this study, since it applies well to new topic areas. (Yin, 1981) When trying to build valid theory, the process should be intimately tied with empirical evidence. Especially when little is known about a phenomenon and current perspectives are not sufficient because they lack empirical evidence, a qualitative case study is suitable for theory building. (Eisenhardt, 1989)

Research that uses several cases can be approached with a case-comparison approach. Cross-case research tactics have a high probability of capturing novel findings in the data. (Eisenhardt, 1989) As the first step, an explanation is constructed from each case. This is called within-case analysis. (Yin, 1981) The researcher should become familiar with each case as a stand-alone entity. Before patterns can be compared and generalized across cases, the unique patterns of a single case should be identified. (Eisenhardt, 1989) Then, the explanation is modified by comparing the different cases. Here, it is important to know the acceptable level of modification. (Yin, 1981) There are different tactics to cross-case analysis (Eisenhardt, 1989) – in this study, dimensions were selected and similarities within the cases were looked for. Dimensions were suggested by the research problem as well as the existing literature.

When conducting a case study using qualitative methods, there is a risk that the theory yielded becomes overly complex. Also, building theory from cases may produce a narrow and idiosyncratic image of reality. The generalization of the theory can remain at a low level. (Eisenhardt, 1989) The generality of this study was raised by including data gathered outside the selected cases.

Although empirical evidence is a starting point for this study, the new knowledge creation involves continual cycling between theory and data (Eisenhardt, 1989). This dialogue between theory and empirical findings is described in the following chapter.

### **1.4.3 Literature review**

The objectives of the literature review were to introduce the context of the study and explore previous research as well as clarify the concept of service-dominant logic. In a case study that utilizes an abductive reasoning approach, finding the initial theoretical foundation as well as matching theory with emerging empirical evidence requires a literature review. Searching for theory sources continued throughout the iterations of collecting empirical data.

Literature describing the legislation, public procurement and services were first explored to form a foundation for the theoretical framework. Both basic literature and scientific publications were used. Then, a review of previous theory concerning value co-creation processes and service-dominant logic was conducted by searching scientific databases for articles and other publications. No limitations to journals used for the review were determined. The following keywords and their combinations were searched:

- Public procurement / Public contracting
- Service procurement
- Service-dominant logic
- Market dialogue
- Technical dialogue

## **1.5 Structure of the Thesis**

The first chapter of this study gives an introduction to the topic, the research problem and the research questions. The research approach of the



study is also briefly discussed.

In the second chapter of this study, the theoretical background is reviewed. A theoretical framework of market dialogue in public procurement is presented.

In the third chapter, the findings from interviews and workshops are described and interpreted and then theoretically merged together with viewpoints from the theoretical framework. The final result is a visual model that combines the theory with the empirical evidence. The model describes the 1) objectives, 2) participants, and 3) means and methods of market dialogue. Finally, a definition of market dialogue in public procurement is presented.

In the fourth chapter, the results of the study are discussed and evaluated in terms of the combining theoretical and empirical findings.

In the fifth and final chapter, the results are concluded. The reliability and limitations to the study are discussed. Both theoretical and practical implications are proposed. Finally, suggestions for further research are given.

## Chapter 2

# Theoretical background

In this chapter, the theoretical background to the research is introduced and discussed. First, the principles of public service procurement and the tendering process are described. Then, the principles of service procurement will be introduced shortly. The concept of market dialogue will be shortly described based on the definition of technical dialogue and references to market dialogue in previous research. In the fourth section, service dominant logic and its relation to product dominant logic are discussed. Finally, a theoretical framework, giving initial answers to the research questions, is introduced.

## 2.1 Public procurement

This section describes the basic principles of public procurement and the act on public contracts, as well as the tender process.

### 2.1.1 Principles of Public Procurement

In order to define public procurement, procurement must first be defined. Procurement is managing the external resources of an organization in a way that the supply of all goods, services, capabilities and knowledge that serve the organization's primary and support activities, are secured

(p. 250 Lamming, 1993; van Weele, 2010, p. 3). The difference in relation to purchasing is that procurement also includes managing the distribution channels, transport and quality inspection of the goods and services. Thus, all the activities required to get the product from the supplier to its final destination. Therefore, the total cost of ownership is essential in procurement. (van Weele, 2010, p. 6) The procurement cycle spans from identification of needs until the end of life of goods or ending a service contract.

Public procurement is different from procurement by companies and other non-governmental organizations. Public purchases are goods, services and works procured by governmental or other public bodies (Karinkanta et al., 2012, p. 19). Its most important characteristic is its public accountability. Public organizations are funded by tax income provided by taxpayers. Therefore, public procurers have different incentives than private companies, as they generally do not seek profit from their operations.

Public procurement has been subjected to regulation by law in order to secure the proper and efficient use of public funds (Karinkanta et al., 2012, p. 19). Since the 1970's, the objective of the European Procurement Directives has been to make the European market for public assignments accessible to all suppliers in the region and prevent governments from protecting local and national interests (van Weele, 2010, p. 109).

According to a broad estimate, the total expenditure on public procurements in Finland was nearly 35 Billion euros in 2010. Public procurement accounts for nearly 20% of GDP in Finland. (European Commission, 2011) Thus, public procurement has a significant role in the Finnish economy. About half of all public procurement is made in municipalities. (Lith, 2012)

Contracts that are above a certain threshold in value are announced in TED (Tenders Electronic Daily), allowing suppliers from all European countries to participate. In 2010, 23,6% of public procurement tenders (out of total expenditure on public works, goods and services) was published in TED. Thus, most of the public tenders are below the EU level threshold and are tendered on the national level. In Finland during 2006 to 2008,

the share of services in the above-threshold procurement value was 34%. (GHK, 2010)

Considerable share of public contracts in Finland are made by municipalities. In 2008, local authorities accounted for around 25% of public contracts above EU thresholds, which is relative majority (GHK, 2010). On a national level there is no statistical information on the share of municipalities, but it is considered significant.

### 2.1.2 The Finnish Act on Public Contracts

This section describes the legislation governing public procurement. *Purchasing & supply chain management: analysis, strategy, planning and practice* (van Weele, 2010, p. 105-123) and *Yrityksen hankintaopas (A procurement handbook for businesses, in Finnish)* (Karinkanta et al., 2012) are relied on as general sources.

Four major principles are the foundation of the 2004 European Procurement Directives: non-discrimination, equality, transparency and proportionality. The Finnish Act on Public Contracts that came to effect in 2007 is dictated by the EU directive and follow the same principles.

All suppliers should have an equal chance to participate in public tendering despite their nationality. No specific brand or product name is allowed to be required in tendering. All suppliers competing for the same contract should be treated similarly and provided with the same information at the same time. Contracts above a certain threshold must be published. The requirements and conditions imposed on suppliers should be reasonable and in balance with the scope and volume of the contract.

Threshold values represent the purchasing volumes beyond which public institutions have to follow European and national legislation in their purchase decisions. The threshold values are different for works, goods and services. There are also differences between threshold values of central government authorities and local contracting authorities, of which only local authorities are a subject of interest in this study.

If a goods or services contract value is 30 000 euros or more, the procurer must apply the regulations of the procurement act and a formal notice must be made in HILMA. For contracts that are smaller than 30 000 in value, the public procurement procedures do not apply, and a notice in HILMA<sup>1</sup> is not required. In case a contract is larger than 200 000 euros, it must be tendered on EU level and the contract notice should be published in TED<sup>2</sup>. The threshold values for sub-central contracting authorities that apply for municipalities are shown in table 2.1.

<b>Procurement type</b>	<b>National level</b>	<b>EU level</b>
Goods	30 000	200 000
Services	30 000	200 000
Works	150 000	5 000 000

Table 2.1: Threshold values on national and EU levels for contracts made by municipalities (Karinkanta et al., 2012)

The division between goods, services and works is not always clear. Goods usually relate to physical products like computers, toilet paper or raw materials. Services often are not as simple to quantify as those categorized as goods. Works can also be seen as services, but usually building projects and similar are classified as works.

There are exceptions to what contracts are subjected to the procurement law, e.g. acquisition of military material, assignments aimed at protecting state security, contracts placed as the outcome of an international treaty, and intra-public contracts.

The act on public contracts does not determine what should be purchased, it only regulates how the purchasing must be conducted. There are different tendering procedures that can be used in public procurement, of

<sup>1</sup>The official electronic web-based procurement notification channel, administered by Ministry of Employment and Economy in Finland, in which procuring entities publish their contract notices that exceed the national thresholds

<sup>2</sup>Tenders Electronic Daily, a supplement to the Official Journal of the European Union

which the open procedure tendering should be used primarily. There are other procedures that can be used in specific situations, such as restricted procedure, negotiation procedure, and competitive dialogue but they will not be in the focus of this study. Other than the open and restricted procedure are applied in very specific situations only.

### 2.1.2.1 Tender process

In this section I will introduce the procurement process of the open procedure. There are many phases in a procurement process, some of which are regulated by the procurement law and some not.

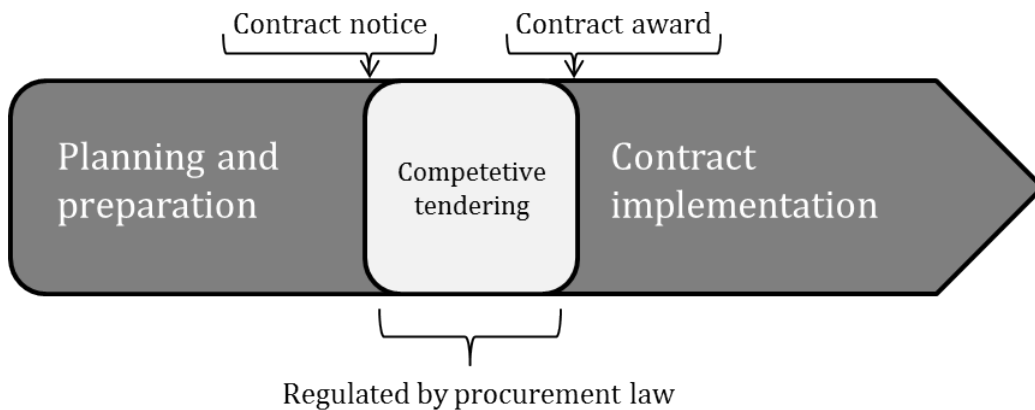


Figure 2.1: Public procurement process, adapted from Koskelainen et al. (2013)

#### Planning and preparation

The process usually starts by defining specifications of what the contracting authority is intending to buy. This stage is not specifically regulated by law, allowing that the principles of non-discrimination, equality, transparency and proportionality are followed.

Technical dialogue is mentioned in a Government Bill (HE2006/50) and is an acceptable procedure before the formal notice is published. In

technical dialogue, the contracting authority requests comments on the tender documents that are in preparation. As there are no formal rules on how to implement a dialogue between the contracting authority and prospective suppliers, it can vary from email inquiries to personal meetings. What can be discussed is not limited by law, as long as equality and transparency are taken into account. Thus, a contracting authority cannot offer an opportunity to discuss the specifications for only one prospective provider. All applicable providers should be heard and informed equally.

In practice, the preparations often include copying documents from previous tenders for the basis of the new contract. The procurement unit defines the specifications by utilizing the information provided by previous contracts and asking requirements from the specific functional unit, and possibly by having a market dialogue with prospective providers before finalizing the specifications. For more complex contracts, the requirement specification can be outsourced to an external (consulting) company.

### **Contract notice**

The official procurement process begins with a formal notice. The notice must state the qualification criteria that prospective suppliers should meet, and the characteristics and specific requirements of the assignment. This includes the information about whether the contract will be awarded based on price or whether the most economically advantageous bid will be preferred. The prospective providers should also be able to find out, how to ask for documents related to the purchase and ask for more information.

The choice between the lowest price and the most economically advantageous offer has to be communicated in the contract notice. Choosing the lowest price is most practical in case of buying simple commodities, where there is hardly any other decisive criteria than price. Thus, the selection criteria can be used to include only those providers that meet e.g. certain technical, quality or environmental standards. The other option is to tender using the best economic offer criterion, where different aspects are deter-

mined a weighting. These aspects can be quality, cost and technical merit to name a few. Which of these two criterion is better, is determined by how the selection criteria for the lowest price and the weighting of different aspects are formed. If tendered using the best economic offer criterion with 70% weight on the price, the end result of the tendering might be exactly the same as with using the lowest price criterion.

The contract notice is final - it defines the whole tendering process, since the terms, specifications and award criteria can not be changed after it has been published. In case a provider has something different to suggest or the buyer otherwise wants to change criteria, it cannot be taken into account in the tendering, or the process needs to start all over again.

### **Supplier selection**

After the prospective providers have sent their bids to the procurement unit, the suppliers and their bids are evaluated against the exclusion and suitability criteria. In case the supplier does not meet the terms of the criteria, they will be excluded. Exclusion can often occur if the company has not paid its taxes or is facing severe financial problems. Also if the supplier does not meet the suitability criteria defined in the formal notice, e.g. does not demonstrate specific expertise or experience in a certain technology.

After excluding the bids that do not meet the supplier selection criteria, the remaining bids are evaluated against the contract award criteria. Now, the contracting authority chooses either the lowest price or the most economically advantageous bid, as defined in the contract notice already. Thus the decision process is quite simple and straightforward. All participants will be notified of the contract award and the contract is executed after the 15 days have expired in which the losing tenderers may object to the decision.



## 2.2 Service procurement

Traditionally, the concepts of purchasing and procurement are dealing with buying goods. Buying services is often considered troublesome since the target of the purchasing is more difficult to define and measure. In this chapter, I will introduce the characteristics of service procurement.

First, we must look at the definition of service. Services are often defined by comparing them with goods and products. Most commonly services are defined as intangible and inseparable from user, and as something that cannot be stored. Grönroos (1990; 2000) defines services according to a broader view:

A service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.

In recent years, many of the basic characteristics of services have been questioned. There are often very tangible elements in a service process: the result of a haircut is inevitably very concrete, and the food and drinks in a restaurant service are an essential part of the customer value. (Grönroos, 2000)

Services are often considered to be produced in direct interaction with the customer. In fact, many activities in a service process are often very separate from and invisible to the user. The customer or the user may only be in interaction with the service for a minimal part. If customers buy from an online clothing store, the only visible part is where they browse for clothes and place the order, and none of the order processing, item collecting, packing, sending, transport and delivery happens in interaction with the user. (Grönroos, 2000)

Although services often cannot be kept in stock, customers can: people wait to be seated in restaurants and wait for weeks for a doctors appointment. In fact there are many products that cannot be stocked for (Grönroos, 2000)

The basic principles of procurement are similar for goods and services. Only the low level activities specific to procuring certain products or services can vary. The basic procurement process goes as follows:

1. Defining needs and requirements
2. Evaluating the impact on the overall economic cost, short- and long-term effects and profitability
3. Scanning supplier market opportunities and potential
4. Defining contract and supplier criteria
5. Competitive tendering
6. Follow up of contract and managing supplier relationship
7. Monitoring the market and alternative offerings in preparation to the next contract

In conclusion, procurement begins by defining needs, evaluating effects, and scanning the supplier market. After the criteria for the contract are set, competitive tendering can be started. After awarding the contract, the contractual relationship requires follow-up procedures and fostering the supplier relationships. The market offerings should be continuously monitored in preparation for future contracts.

## **2.3 Market dialogue**

Market dialogue has not been defined as a concept within the public procurement context. Thus, the term and the phenomenon are mentioned in scientific papers and other publications. This section will give a brief description of market dialogue and its relationship with technical dialogue.

### 2.3.1 Technical dialogue

Technical dialogue is mentioned in the Government Bill (HE2006/50) as a method of asking for technical information about a product or service. As described in section 2.1.2.1, the procedure is not detailed in the law. However, Mäkelä (2011) gives guidance on how technical dialogue can be used for the benefit of the procurer and in a legally proper manner.

Mäkelä (2011) describes technical dialogue as market research conducted by the public contracting authority prior to the procurement, using dialogue with market participants. The purpose of technical dialogue is to find out the number of potential suppliers in the market, their delivery capacity, pricing and willingness to bear risks, the products and solutions on the market that could fulfill the need, as well as the prevalent contract terms in the industry. Technical dialogue should mainly be used in non-routine procurement cases. It is usually conducted together with supplier companies, although in some special areas only experts can be used.

Technical dialogue should be conducted distinctly earlier than the contract notice release. This is to guarantee an equal tendering for suppliers. Usually the dialogue can be initiated via HILMA or the procuring authority's website, or contacting one or more companies directly. Dialogue with only one company is not against the equality, transparency, openness and non-discrimination principles, if equal opportunities still remain during the actual competitive tendering phase. In some cases, dialogue with only one supplier will result enough information, although dialogue with multiple companies may bring a more diverse view of the opportunities. In practice, the technical dialogue can be conducted in many different ways: either orally or in writing, through open discussions or specific questions. Also, potential suppliers can be asked to comment on the draft version of invitation to tender. An event can be organized for discussing the procurement with suppliers, mainly to inform suppliers of the upcoming procurement and discuss high-level opportunities instead of details.

Dialogue should not be conducted in a manner that endangers the equal

opportunity of all suppliers to participate in competitive tendering. No supplier should be given more information than the others, and the dialogue should be documented properly. All suppliers should be informed of the process and granted equal access to information. Conflicts of interest may be a concern for municipal officers conducting the technical dialogue, since companies may affect the specifications considerably. In all cases, the contracting authority holds the right to make decisions concerning the final tender documents and selection criteria.

Technical dialogue represents communication where the procurer is the initiator and the potential suppliers are informants, and there is hardly any interactive dialogue. Technical dialogue in its current definition cannot be initiated by the companies or other stakeholders. The concept of market dialogue, on the other hand, has been used to describe all forms of interaction between the buyer and the supplier prior to a competitive tendering.

### **2.3.2 Market dialogue in literature**

Market dialogue has been referred to as all the interaction taking place between the procurer and markets prior to the tendering phase (Patajoki, 2013). Market dialogue is often initiated by the procurer, but in some cases the suppliers are more active to open the dialogue while the procurer remains passive (Jylhä, 2011). Pohjonen and Koskelainen (2012) state that procurers need to develop new capabilities in buying in order to find fitting solutions from the market and also to create new markets to fulfill their needs. Being able to procure innovative solutions would require market dialogue, which helps to produce attractive invitations to tender.

Market dialogue is often referred to in research papers, but the term has been left undefined. In most cases, market dialogue is seen as the interaction between the procurer and the suppliers before the competitive tendering begins, especially in cases where new and innovative solutions are sought for. The interaction can be initiated by market participants or the procurer, and technical dialogue is one procedure that can be included

in market dialogue.

## 2.4 Service-dominant logic

The fundamental nature of services is integral in developing a comprehensive view of public procurement of services. In this section, a theoretical perspective called service-dominant logic is introduced.

Dominant logic has been defined by Bettis and Prahalad (1986, 1995) as the "information filter" of an organization, stored via shared schemas, cognitive maps or mindsets. The filtered information is incorporated into strategies, systems, values, expectations and reinforced behaviour of an organization. Organizations tend to make decisions, such as resource allocation, by focusing on data deemed relevant in terms of the dominant logic, ignoring any other data. Therefore, the existence of dominant logic remains largely unrecognized by the people making decisions in the organization. Traditionally, economic exchange, thus buying and selling, have been viewed from the perspective of goods or product dominant logic. Recently, this perspective has been challenged through the introduction of service-dominant logic, a more holistic view on exchange.

Service dominant logic is a perspective on marketing, originally introduced by Vargo and Lusch (2004). It is a mindset or a lens through which one can view social and economic exchange phenomena. (Vargo and Lusch, 2008) This new dominant logic moves away from product-centered viewpoint, described as goods-dominant view. Central to the goods-dominant view is a focus on tangible output and discrete transactions. Specifically, product and service offerings have been marketed and sold by concentrating on the physical, measurable product and transactions related to it. (Vargo and Lusch, 2004) Even service companies often do very product-oriented marketing (Shostack, 1977).

In contrast to the goods-dominant view, the service-dominant logic focuses on intangibility, exchange processes and relationships. Vargo and

Lusch (2004) define services as the application of specialized competences, such as knowledge and skills, through deeds, processes and performances for the benefit of another entity (or the entity itself). This definition is applicable to all marketing offerings ranging from tangible goods to very intangible services.

This broader service-dominant viewpoint regards all products as services and views the creation of value differently. Goods are produced by applying specialized knowledge and skills to the manufacturing process of the product. The value of a product is not created while producing that product; it is created when a customer or user is using the product to reach a certain benefit. Value is not a property of an object or offering, but an outcome from the relational enactment and interaction between a provider and a receiver (Ng et al., 2012). Vargo and Lusch (2004) argue that the benefit gained from a tangible product is often different for different users and can be as abstract as the benefit and value of a service, as can be seen when a pharmaceutical product can replace medical services.

Often both services and products consist of both tangible and intangible properties, such as time, experience, and process (Shostack, 1977). Train travel does not leave you with any tangible result; the main elements of a journey are the promise of the destination and experience. Still, many very tangible elements can build the service: the vehicle, the seats, and the decor. If you buy a tangible good, such as a bicycle, you get tangible elements as well as intangibles – the ability of a bicycle to co-create the value of transport together with the user. Thus, all goods and services are indeed market entities, combinations of discrete tangible and intangible elements linked together.

The service-dominant view has already been present in the beginning of human civilization. When there were no currency or complex distribution systems, services were exchanged between people. As stated by Vargo and Lusch (2004), all economies are service economies, since services are always exchanged for services. Goods are only a distribution mecha-

nism for service provision. Service is actually the fundamental basis of exchange: basically all goods and activities have always been performed in some manner, which are thereafter separated into microspecializations and exchanged with one another. Today, we deal increasingly with indirect exchange, which masks the fundamental basis of exchange. (Vargo and Lusch, 2004)

The indirect nature of exchanging services and goods has created a mindset called goods-dominant logic, that focuses our attention in transactions. Thus, the fundamental basis of goods as services is hidden behind the complex systems of making, selling and consuming. In order to create value for customers, as well as for anyone who should gain value from the service, the exchange process must be explored from a service-oriented point of view.

The procurement process is fundamentally a process of value co-creation. In the following section, value co-creation processes are discussed from a service-dominant logic perspective.

## **2.5 Value co-creation process**

Service-dominant logic views marketing as a process of creating value propositions (Payne et al., 2008). The process creates value propositions for the customer. These processes consist of the procedures, tasks, mechanisms, activities and interactions which support the co-creation of value. Similar to marketing in private businesses, public procurement is as well a set of processes and resources with which the contracting authority seeks to create value propositions. The relationship between the provider and the contracting authority is a dynamic and interactive set of experiences and activities performed by both of them. The process takes place within a certain context using tools and practices that are partly explicit and deliberate, and partly based on routine and unconscious behavior.

A framework for process-based value co-creation has been presented

by Payne et al. (2008). The framework consists of three main components:

1. *Customer value-creating processes* - the processes, resources and practices which customers use to manage their activities. If a customer is an organization, also the processes used to manage their business and relationship with suppliers are included here.
2. *Supplier value-creating processes* - the processes, resources and practices used by the supplier to manage its business and customer relationships
3. *Encounter processes* - the processes and practices of interaction and exchange within customer and supplier relationships which are managed in order to develop co-creation opportunities

The customer's value-creation process consists of activities performed by the customer to achieve a certain goal. The customer is an active player who co-develops and personalizes their relationships with suppliers, and also adopt different roles. (Payne et al., 2008) The customer can be a consumer, a competence provider, a controller of quality, a co-producer, and a co-marketer (Storbacka and Lehtinen, 2001). Thus, the value of a public service is co-created with the user. Their relationships with suppliers are more important in creating customer experiences than product features are.

There are several techniques for analyzing customer processes: process mapping, customer activity cycles, service-blueprinting, activity mapping, and customer-firm touch point analysis. (Grönroos, 2000)

Supplier processes assist value co-creation through designing and delivering customer experiences, as well as the facilitation of organizational learning. Reviewing co-creation opportunities and planning, testing and prototyping value co-creation opportunities with customers are the first activities in supplier process. Then, the supplier implements customer solutions and manages customer encounters. Finally, the supplier should develop metrics to assess whether the company is making value propositions



that customers are able to turn into value. The supplier's business strategy should focus on identifying and understanding the customer's value creating processes and selecting which of these processes the supplier wishes to support. The scope of the value proposition is determined by the chosen positioning within the customer's processes. The "silo mentality" of product-oriented view should be challenged - since customer encounters are often delivered by different organizational functions, the supplier processes should be designed cross-functionally. (Payne et al., 2008)

Encounter process consists of two-way interactions and transactions occurring between the customer and the supplier. These can be for example "touchpoints" or other interaction, either on the initiative of the company or the customer. Payne et al. (2008) suggest that value co-creation is facilitated by three forms of encounter: *communication encounters*, *usage encounters* and *service encounters*. The encounters that are central for value co-creation can be referred as critical encounters (Gremler, 2004). Some encounters, on the other hand, are critical in building customer experiences.

## 2.6 Theoretical framework

The theoretical framework consists of four parts. The first part defines public procurement and public services context from a service-dominant logic viewpoint. Then, the public procurement process is framed as a value co-creation process. Then, an initial definition of market dialogue is introduced. Finally, the role of market dialogue in transforming the public procurement process into a service-dominant and value creation focused is described.

### 2.6.1 Public procurement defined with service-dominant logic

The ten foundation premises of service-dominant logic have been translated to correspond to the context of public procurement. These new premises give an applied viewpoint to public procurement of services. The table in 2.2 consists of ten foundation premises of service dominant logic, their explanations and finally the application to public procurement.

<b>S-D Logic Foundation Premise (FP)</b>	<b>Explanation</b>	<b>Application to public service procurement</b>
<b>FP1:</b> Service is the fundamental basis of exchange	The application of operant resources (knowledge and skills), "service," as defined in S-D logic, is the basis for all exchange. Service is exchanged for service.	The knowledge and skills of all suppliers, the contracting authority and other actors in the municipality are combined in a value co-creation process.
<b>FP2:</b> Indirect exchange masks the fundamental basis of exchange	Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent	Since public procurement is provided through combinations of goods, funding and institutional processes, the basis of exchange, service, is not always visible
<b>FP3:</b> Goods are a distribution mechanism for service provision	Goods (both durable and non-durable) derive their value through use – the service they provide.	The goods and services procured by public authorities derive their value through use and the service they provide.
<b>FP4:</b> Operant resources are the fundamental source of competitive advantage	The comparative ability to cause desired change drives competition	Knowledge and skills of the public contracting network are the basis for service competence
<b>FP5:</b> All economies are services economies	Service (singular) is only now becoming more apparent with increased specialization and outsourcing	Service foundation of public procurement is now more apparent due to increased outsourcing, but has always been a part of service economy
<b>FP6:</b> The customer is always a co-creator of value	Implies value creation is interactional	Value is created only in interaction between the public service actors and beneficiaries.
<b>FP7:</b> The enterprise cannot deliver value, but only offer value propositions	Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but cannot create and/or deliver value independently	The supplier or the contracting authority cannot deliver value independently. Their value propositions can be accepted by beneficiaries to collaboratively create value.
<b>FP8:</b> A service-centered view is inherently customer oriented and relational	Because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational	Public services are defined by the value perceived by the beneficiary. As the value of a public service is created in interaction with the user, it is inherently customer oriented and relational.
<b>FP9:</b> All social and economic actors are resource integrators	Implies the context of value creation is networks of networks (resource integrators)	Actors in the public contracting network exist to integrate and transform competences into services demanded by beneficiaries.
<b>FP10:</b> Value is always uniquely and phenomenologically determined by the beneficiary	Value is idiosyncratic, experiential, contextual, and meaning laden	The beneficiary of the public service determines the value, which is dependent on context and experience.

Figure 2.2: The foundation premises of service-dominant logic and their application to the context of public procurement (developed from Vargo and Lusch (2004, 2008), inspired by Smeds et al. (2010))

### 2.6.2 Public procurement as a value co-creation process

When service is considered to be the fundamental basis of exchange (Vargo and Lusch, 2008), the public procurement process can be seen as a process of value co-creation.

Recognizing customer processes is crucial in public procurement, since the end user is the one deriving the value of a service. It must be noted, that a customer in a public procurement process can be many different people: a municipal resident, an employee at the municipality, or a third party representative. All users within the procurement chain or network should be considered and their roles in the value co-creation mapped.

The supplier's value creating processes should be designed by starting with the customer's process. By aligning supplier processes with the customer's value creation activities, more value can be created. In the process of public procurement, the private service providers are suppliers and should design the value-creating activities according to their customers processes. Here, the public contracting authority is both the customer and the supplier. They are simultaneously the customers of the private service providers and the suppliers of public services for the end users. Thus, both the service provider and the contracting authority are responsible for supporting the customer's value production.

Payne et al. (2008) state that the dominant logic in marketing should be changed from "making, selling and servicing" to "listening, customizing and co-creation". The procurement process is traditionally seen as buying products or services that are defined by the contracting authority and the supplier. If procurement is considered to be a value co-creation process, it should be about customizing and aligning with customer and end user processes.

Also encounter processes should be recognized. In a public procurement process, there are several different series of encounters: encounters between each actor involved in the process. Some of the encounters are communication encounters, like those between the procurement profes-

sionals and the supplier, since the procurement experts carrying out the tender process will not be the beneficiaries of services. Service and usage encounters occur for example between the supplier, the end customer and the municipality functional unit during the procurement process. The encounter processes are critical in delivering value propositions to the customers.

In conclusion, public procurement is a value co-creation process where participants of public contracting process (1) encounter in order to (2) benefit the customers by (3) creating value propositions that are (4) aligned with both customer and supplier processes. The figure 2.3 illustrates the different actors, their processes, and the encounter processes between them.

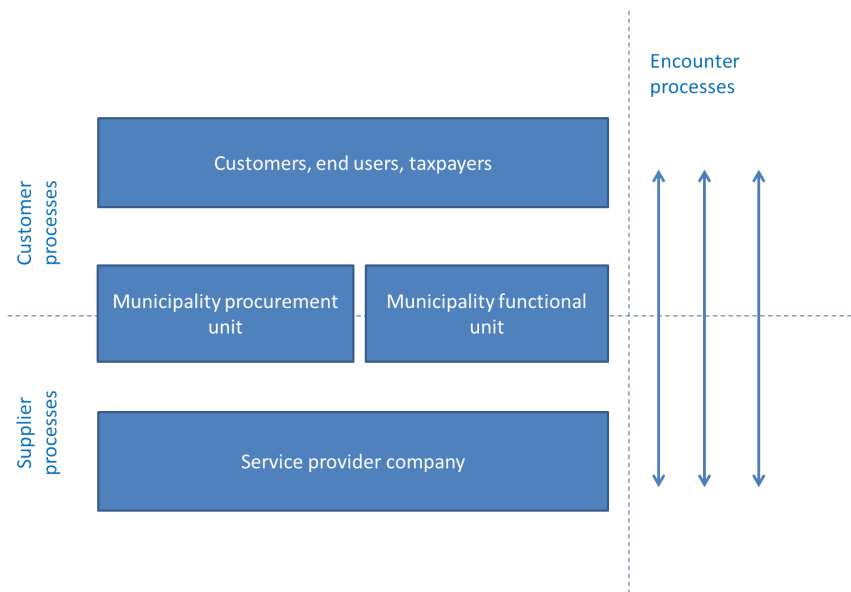


Figure 2.3: Public procurement as a value co-creation process

### 2.6.3 Market dialogue definition

Market dialogue, as well as technical dialogue as a part of it, is a two-way interaction between suppliers and the contracting authority. Thus, it is a process of communication encounters.

Market dialogue is one of the encounter processes in public procurement, consisting of the following characteristics:

1. Communication between the contracting authority and potential service providers prior to competitive tendering where, the company provides expertise and the procurement unit has the power over decisions
2. Market mapping, concerning features of the specific industry pricing and common contract terms, as well as the composition of the market

Market dialogue is crucial in the planning and specification phases of procurement process and often determines the success of the contract as a whole.

### 2.6.4 Role of market dialogue in transforming procurement process logic

A service-oriented procurement process requires market dialogue in order to deliver appropriate value propositions to the customers. Market dialogue is an encounter process between the supplier processes and customer processes. It is needed to help suppliers map customer processes and align their processes accordingly, in order to create value propositions. Both the private companies and the public contracting unit are suppliers in public procurement. Customers are both the internal users of the contracting authority and the end users. The following figure illustrates the value propositions, value creation and market dialogue as part of encounter processes in public procurement.

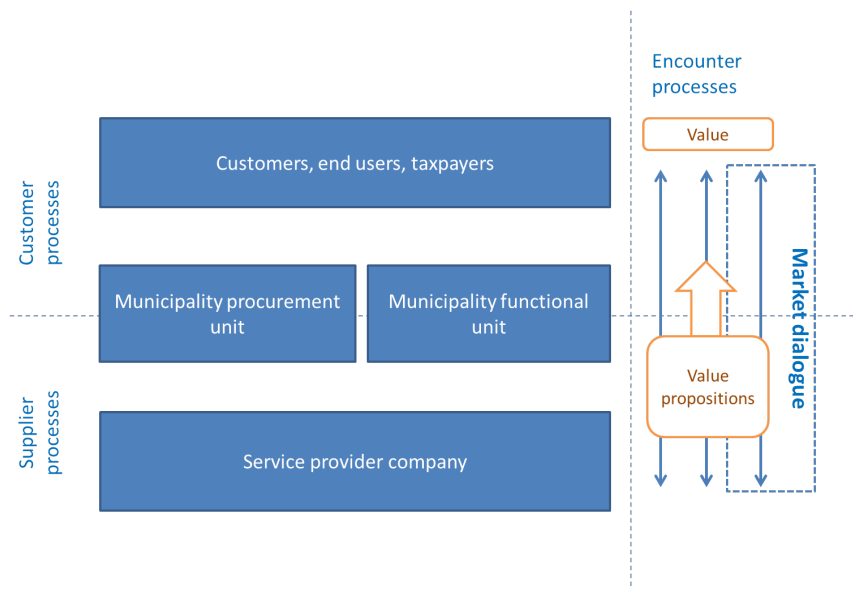


Figure 2.4: Role of market dialogue in the public procurement value co-creation process

## Chapter 3

# Empirical study

### 3.1 Data collection and analysis methods

In this section, the methods of data collection and analysis, as well as the progress of the case studies are described. Short descriptions of the procurement cases are given. The data collection methods used in this study are semi-structured theme interviews and observations of group discussions during two simulation days and two workshops.

#### 3.1.1 Description of the case studies

Most of the empirical data in this study was collected for a case study during the PRO2ACT project. I was not involved in this project and its data collection. The case studies were conducted during 2011 in two municipalities. They were carried out as developmental process simulation projects. The first one, conducted in the spring 2011, consisted of three procurement processes of the City A. The second one consisted of two procurement processes in the City B and was carried out during the fall 2011. The procurement processes chosen for the study were intentionally selected to represent the different distribution of work as well as diverse subjects of procurement.



The aim of the simulation projects was to identify both challenges and good practices in the procurement processes. The goal was also to find solutions to these challenges. Both subprojects culminated 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. Results of these developmental process simulation projects were described in final reports.

The case studies were conducted by using qualitative data collection and analysis methods. The initial data was collected using semi-structured interviews with representatives of the city and companies. After first analysis, more data was collected during the observation of process simulation and group discussions during the simulation day. Additionally, both internal and public documents concerning the procurement processes, such as contract notices, invitations to tender, tenders, and contracts were used to complement the empirical data.

In the first case study, the procurement processes of dental technical laboratory work, bakery products and wood- and metalworking machines were examined. Of these processes, I chose the dental laboratory work and wood- and metalworking machines as the material of this study. I selected these cases because they represented different instances of procurement and included data concerning market dialogue.

The second case study consisted of procurement processes of a cleaning service and a building contract for a renovation of a school yard. I chose the cleaning service procurement process to be included in the material of this study, since it represents a very typical service procured by public authorities.

### **3.1.2 Interviews and simulation day**

In the first phase of this study, the semi-structured theme interviews were the main source of data. The interviews were conducted face-to-face.

In the case study conducted in City A, the interviews were made during

a three-month period in spring 2011. The cases of dental technical laboratory work and wood- and metalwork machines for schools consist of 14 individual interviews with representatives of the city, end users and companies. In addition, the simulation day group discussions with 18 participants was used as data.

In City B case study, the interviews were conducted in fall 2011 over a period of two months. The 18 interviews concerned with the cleaning service procurement case as well as simulation day recording are used as data for this thesis. The simulation day group discussions had a total of 44 participants.

Municipality	City A		City B
Procurement case	Dental technical laboratory work	Wood- and metalwork machines for schools	Cleaning service
Municipality procurement professionals	5		6
Municipality substance professionals	1	5	7
Private company representatives	1	1	4
End users	1	-	1
<b>Interviews in total</b>	<b>8</b>	<b>11</b>	<b>18</b>
Simulation day participants	18		44

Figure 3.1: Interviewees and simulation day participants of PRO2ACT, 2011

The interview length varied between 30 and 180 minutes. The recording of the simulation day consists of a video recording of three-hour process simulation and an audio recording of the workshops. All interviews

were tape-recorded and transcribed. In each interview at least two researchers were present, one acting as the primary interviewer and another recording notes and observations.

### **3.1.3 Observation of future and market dialogue workshops**

Another set of empirical data was collected as a part of the VISO project, in a half-day future workshop held in April 2013. I participated in organizing and facilitating the workshop. The workshop was aimed at company representatives, mainly from small and medium-sized companies. Workshop participants shared experiences from public procurement and created an ideal future procurement environment in smaller groups. Each group was facilitated by one researcher. The program of the workshop can be found in Appendix B.

The objective of the workshop was to gather a diverse group of representatives from private organizations, in order to record opinions and experiences from various different industries. Thus the participants' backgrounds were not limited, and open invitations were distributed via project steering group members and the project mailing list. Eight business representatives participated, of which six were from private companies and two from unions representing small businesses. Some participants had previous experience in public procurement and some did not.

I collected the third and final part of the empirical data during the market dialogue workshop in November 2013, also organized within the VISO project. I planned and prepared the workshop with other researchers and acted as the main facilitator. The objective was to discuss and share experiences regarding market dialogue, and create definitions for the concept. The workshop started with a facilitated discussion regarding the procurement process as a whole, and participants shared their experience of the most difficult tasks and phases in the process. I then facilitated a discussion about the participants, methods and goals of market dialogue. Visualizations that I had created based on the earlier data were used as boundary ob-

jects for the discussion. Participants shared their experiences and insights, both supporting and conflicting, during the session. Finally, the group was divided into smaller groups for a short group work assignment. The small groups were asked to formulate a simple definition for market dialogue. The program of the workshop can be found in Appendix C.

This workshop was aimed at both company and public procurer representatives, and participants were invited via the project mailing list. Few participants who were being interviewed as a part of VISO project were invited additionally. A total of 15 participants took part in the workshop. Majority of them were procurement professionals of a municipality, one of them working in a catering unit instead of a procurement centre. Three participants represented other public contracting authorities. Two participants were from companies and three were procurement experts representing unions.

Party	Participants in future workshop	Participants in market dialogue workshop
Private organizations	6	2
Public contracting authorities	-	10
Municipality procurement professionals	-	5
Municipality substance professionals	-	1
Other than municipality procurement professionals	-	4
Other (e.g. unions)	2	3
<b>Total</b>	<b>8</b>	<b>15</b>

Figure 3.2: Workshop participants, VISO 2013

### **Coding and analysis of the interview and workshop data**

The PRO2ACT interviews and simulation day had been tape-recorded and then transcribed by the researchers working in the project in 2011. I had a chance to work with the same researchers, thus it was possible to gain insight on the data from those who had conducted the interviews and the simulation event. First, I read through the transcriptions to get a holistic picture of the data. Then, the most suitable cases were selected. Future workshop observation gave additional ideas for research questions. Based on the research questions and the theoretical foundation, I formed an initial framework. Then, all parts of the interview data referring to market dialogue, the goals, activities and participants were marked. These findings were categorized first within each individual case. Then, I categorized these findings according to each part of the research questions, and further into subcategories. Subcategories were for example overall goals of procurement process, comments by or about companies' participation, and market dialogue methods in the preparation phase. Categories were identified, added, combined and removed as the study progressed.

Since the original goal of the interviews had not been to directly seek knowledge of market dialogue, the data was rather limited for the purposes of this study. Therefore, I also included data from two workshops, and analyzed it in a similar manner as the interviews. Also transcriptions and recordings were available from the workshops. I was involved in organizing the future workshop, thus I was very familiar with the data. I organized the second workshop with a clear focus of validating the initial findings deemed from the interviews and the future workshop. The workshop results were analyzed according to the categories set by the analysis and synthesis of the previous interview and simulation day data.

## **3.2 Market dialogue in public procurement**

### **3.2.1 Case descriptions**

In this section, the three cases are described and the role of market dialogue in each of them is discussed.

#### **3.2.1.1 Dental technical laboratory work**

The procurement of dental technical laboratory work began as the previous contract expired in the end of 2009. A merger of health care organization was coming up, so the contract was extended until May 2010 in order to cover the new organization as a whole with the new contract. The contract was renewed many times after this because the start of tendering was delayed and there were many complications in the process. The tender was divided into three sub tenders.

The procurement expert working in the City's procurement center took care of carrying out the competitive tendering, while the director and two specialists at dental health care unit acted as experts. A project team was formed by the procurement expert, the dental health care director and one of the dental care specialists to coordinate the preparation work. The specialist began working on the two sub tenders, while the third one was assigned to another specialist. This second specialist did not participate in the meetings of the project team, and no cooperation or checking was taking place between the two sets of tender specifications. Eventually the specifications were combined in the invitation to tender, and five offers were received. At this point, it was noticed that the third sub tender was not considered precise enough and the offers received could not be compared fairly.

The product specification preparation was difficult for everyone involved in the process. Brand names could not be used, and the dental care specialist had a hard time trying to find general names for different products. Also

quantifying all the different components of dental products was laborious, since there were thousands of different products on the list and every final product was always unique, since they were always produced for individual client according to their condition and treatment plan. Since the tender was decided to be carried out as a product tender, a generic listing of different parts was the only way to conduct a feasible competitive tendering. It is obvious, that the tender also included a significant amount of unique work applied to the final product, and should therefore clearly have been classified as a service. Furthermore, since the dental unit continued to order the service using brand names, the supplier interpreted that they could charge more than what was agreed in the contract for non-brand items.

### **Use of market dialogue**

In the case of dental technical laboratory work, no market dialogue with potential suppliers was used. Thus, there was no common understanding about pricing criteria, and the most appropriate approach to tendering was not discussed with stakeholders. This resulted in a difficult tendering of the laboratory work services. Limited dialogue prior to the competitive tendering resulted in an inaccurate invitation to tender and misunderstandings between the supplier and the buyer during the contract phase. The end user took an essential role in the tender preparation work, although the lack of communication between parties within the municipality and with companies affected the contract negatively.

#### **3.2.1.2 Wood- and metalworking machines**

The case of wood- and metalworking machines was included in a larger construction project, where a new day care center was built on a school lot, while also the school building was extended. A new wood- and metalworking classroom was built. The education unit and the school were responsible for the procurement. The financial planner of the education

unit carried out the tendering in spring 2010. A procurement expert assisted him with procurement regulations whenever necessary.

The school principal represented users together with the crafts teacher, who helped to define the machine requirements. Also an industrial safety delegate was helping with safety requirements.

The tender was divided into two sub tenders. The invitation to tender attracted two offers. In these, the offers only corresponded to the requirements of the second sub tender, thus the first sub tender could not be completed. Eventually, the second part was procured as a direct purchase.

### **Use of market dialogue**

The suppliers were actively in contact with the end users at municipalities. They initiated the contact and informed the teachers about their products. In the case of City A, the person preparing the tender was in contact with the machine provider and asked how different issues could be resolved. With the information provided, he was able to draft the invitation to tender. The supplier was contacting the end users from time to time in order to stay informed about upcoming tenders and also promote their products or services. The case involved both end users and companies in the preparation of the tender, of which both took an active role instead of a passive one.

#### **3.2.1.3 Cleaning service**

The cleaning services for a school were tendered in 2011 as a part of a larger competitive tendering of cleaning locations of the City B. The education unit was the buyer in the contract, while the Public Works unit took care of contract follow-up as well as planning and tendering of the cleaning services. The Procurement center also participated in the preparation and tendering phases, and assisted in reclamation handling.

The Public Works unit had drawn up a service description that had been in use since 2005, which had been approved by the education unit. When-



ever this description was changed, the end users were notified. However, the service provider of the time had exceeded the defined service level. The school heard about the ending of the contract and the upcoming tender from their service provider.

The service providers were able to participate in a review of the school after the invitation to tender was released and ask questions, which were answered on the municipality website.

Once the contract was awarded, the new service provider and the Works Unit held a kick-off meeting. During the contract implementation, the unit's cleaning supervisors made monthly quality control rounds together with the service provider representative. Also spot checks were made. The communication between the service provider and the school end users was mainly carried out by using a notebook. This was necessary because the cleaning staff worked mostly during the evenings.

The previous service provider was very much appreciated in the school community. The principal was content with the provider's being present for the children and acting as an educator. However, the provider lost the tender since their tender did not correspond to the requirements. This end result was very dissatisfying for the end users but was in line with the unit's strategy.

### **Use of market dialogue**

In the cleaning unit of the municipality, market dialogue has not been used. Only time the unit representatives have been in contact with a provider prior to tendering, was when they were procuring a new kind of service. The people in the unit are very careful not to engage in any dialogue during the competitive tendering, but also think that it is not allowed during any part of the process.

“We don't have that too much, and we haven't been very eager really [...] Now, if there is an event or we are invited somewhere, we've agreed not to go during the process, and not really

at other times either. [laughs] [...] We have to think about how it looks to the outside, it is not enough that we know ourselves that nothing illegal is going on, it also has to seem that it doesn't happen."

*Substance expert*

The management personnel of the unit and procurement professionals had a different kind of view. They thought that market dialogue should be used much more. In their opinion, companies know what kind of invitations to tender best suit their business and are understandable to them. Also dialogue during contract implementation phase is not seen to be taking place enough. The reason for minimal market dialogue is thought to be the culture within the unit, which focuses on doing things using their own previous experience as the only source of knowledge. Also the procurement law is thought to forbid dialogue with companies. The management is in the opinion that leadership and management support would be the key for more market dialogue taking place. However, they also think that there is simply not enough time and resources to use e.g. technical dialogue during every procurement.

"I think we are doing minimal communication before the tender. It's somehow considered here to be against the law, to ask and discuss with the companies about upcoming invitations to tender. It's kind of an unwritten rule, that we just do the tendering and won't use companies' help; we just use our previous experience. [...] no one knows better than the companies, how the invitation to tender should be made."

*Substance expert*

"Complying with the process itself takes so much time, so in the end there is not enough time to spend on something as useful as technical dialogue. You just don't have the time to do

that as much as you'd like. It would probably be really useful to organize a technical dialogue every time."

*Procurement professional*

### 3.2.2 Goals of market dialogue

In this section, the goals of procurement activities and particularly findings related to market dialogue goals are described. At the end of the section, key findings are summarized.

#### Goals of the procurement process

The substance experts in the cleaning unit of City B mention varying goals for the procurement process: one says the goal is to get customers the service that has been agreed. Another wants to get the work done and try to improve tenders if they can. A goal of getting a well-functioning contract with trustworthy providers is also mentioned by one official. Not having to interfere constantly was an important feature in a good contractual relationship. The procurement officials, on the other hand, emphasize the economic goals as well as the benefit to end users. They also have a view that the functional units' goals are sometimes different from the City's goals concerning procurement – the procurement center tries to take the whole city into account.

"Of course the main goal is to get good contracting parties, who are able to deliver the quality we have paid for, with as little fuss as possible [...] they follow the contract without us monitoring too much..."

*Substance expert, City B*

"This is my job. [...] Of course I try to make it better every time, but the law restricts so much that you really can't do everything you want."

*Substance expert, City B*

“The customer should get what has been agreed.”

*Substance expert, City B*

“... It’s a matter of honour for us, because they [services] are needed by the elderly, the children, everyone, therefore the service has to be good.”

*Procurement professional, City B*

“Our goal is, on our part, to influence to the City’s contracting so that the contracts are both economically most advantageous and beneficial for the citizens.”

*Procurement professional, City B*

Goals of the end user are very different from the other participants’ goals. A principal of the school is worried about long-term goal, which is educating the children to become good citizens, being corrupted by short-term savings goals. The principal, thus the end user, is concerned about the service being valued only as something that is produced, without taking human factors into account. The end user emphasizes that in a school environment, all adults should be present for the children as one of the educators. If there is no personality attached to the cleaning work, the children will not learn “where cleanliness comes from”. If there is no human example of keeping the environment clean, the children are not motivated to help keep the common spaces tidy. In the end user’s opinion, if money is saved in the short-term, more money will have to be spent in the future to fix the problems caused by poor cleaning service and lack of adult’s example for the children.

“If the attitude towards cleaning work is like, it is just a mechanical task, I hope you could get rid of that thought at least in the school environment where, at least according to our wish, every adult is an educator who is present there, an example for the children. [...] The current system is not good for improving

the level of service. Slowly the schools will deteriorate, if you neglect basic upkeep..." *End user, City B*

### **Defining the need: Service or product?**

According to the participants of the tendering, getting the product or service they want is an important goal. The definition of the need is not a simple task. The difference between a specific item that is easy to quantify and a complex service is significant, and there are many different ways to communicate the need in the invitation to tender. Procurers were often worried that the companies do not understand the actual need, since the description has to concisely present what the tenders should include. In the case of dental technical laboratory work, the task of productization is found difficult by the substance experts of the dental health care unit. For the tendering, a list of some products that could be ordered was produced, but the problem was that every product is actually a unique one. The products change constantly and the technician usually makes a custom product for each customer. Thus, it is the service provided by the technician that is procured instead of a bulk product. The specialists making the specifications were told by the procurement officials that they cannot use brand names in the tender documents, and this made their work more complicated. They were afraid that the service providers would not understand the criteria without the brand names. On the other hand, they were approaching service procurement with a product-oriented approach.

"You cannot have a sliding scale of parts, you have to have the specific amounts and sizes in order to get an exact price. In that sense it is difficult for the person making these invitations, since all our products are customized."

*Company representative*

"We had to think, how to change the name of the product to a generic name, which is very difficult in our trade, in our spe-

cialty. It's too hard to find a name that all the companies would also understand. [...] This competitive tendering includes only a small portion of a large repertoire; the technicians have thousands of items on their product list. And that list is constantly developing and changing. [...] For this tender we just tried to find a list of products to make it possible for the companies to compete equally. [...] We cannot have them all included in the tender, since no product that is made is the same."

*Substance expert, City A*

### **Cooperation for the best end result**

The cooperation of different parties within the municipality was deemed to be important. The mutual understanding of the importance of planning as well as specifying the need together with different stakeholders was observed to be crucial for the success of the procurement. The lack of understanding between different parties, lack of time and resources and the difficulty of gathering a project team were considered to cause most problems.

"[...] it is about how you do this, how we cooperate and do things together, everyone should understand why we even do tendering, people should not just look after their own base, but understand that the more thoroughly we do the preparation with the team, and think how it benefits us in the future.."

*Procurement professional, City A*

### **Less reclamations and negative feedback**

In the Public Works unit of City B, lack of dialogue between different parties is seen as a problem that results in reclamations and even threats to service providers. Communicating by complaints seems not to help in getting the best end result: the respondent hoped everyone could sit down to

discuss the cooperation before problems appear, instead of making reclamations every time something goes wrong.

"It is a great deficiency, since the only ones I hear are about making reclamations here and there, because they didn't do this and that, and threatening that we will no longer order service from you [...] instead if we would sit down here, our management here, the people who govern that, we could get much further and get better results. Usually they are only in contact about bad things, and that is so wrong."

*Substance expert, City B*

### **The preparation phase and market dialogue require most resources**

The procurement professionals recognized the preparation phase to be the most crucial for the success of the procurement, and also the most difficult. There was an assumption that devoting time and effort in the preparation would decrease appeals to market court. The time currently used to deal with complaints could be used for better preparation instead, and again avoid unnecessary complaints. One of the reasons for using too little resources on preparation and market dialogue seems to be the "old culture" that discourages dialogue.

"The supplier selection phase is the easiest. The most difficult is, in the beginning, to find out who is involved in the procurement and how to get the needed information from them"

*Procurement professional, City A*

"I think we would get less complaints and cases in market court, and as a result, the time that would be released from the end, we could probably use for a better preparation. That's what usually happens, when people do things in a hurry, they don't have enough time to consider all the options there might be."

*Procurement professional, City B*

“You really need to put resources to [preparing invitation to tender], it’s the most important one. But before that, we really need to do market research and get information. The better you have researched the market, and the better you also do that market research also here in our organization, what is our need, the real need, not so that you check the previous tender and repeat the same thing. There is a problem with the old culture, it was like, you didn’t ask much anything, it needs to be changed. The key is to define the correct specifications, and if you do it well with all the quality criteria and all, then the rest goes without problems. But if you are lazy, sloppy or do it in a hurry, you can tell that it will go wrong the whole way until the contract implementation.”

*Procurement professional, City A*

### **Partnership as a goal**

City B is aiming to build partnerships with its suppliers. The procurement centre describes partnership as having a common goal and committing to working for that goal. Committing to partnership also comprises flexibility and ability to engage in dialogue during the contract. Technical dialogue is considered to be a good method for asking providers about what kind of operational models would support partnership in their specific field. On the contrary, one of the respondents saw that real partnership is impossible with the current legislation. One respondent describe partnership as a wider concept: partnerships are also about using technical or market dialogue to influence the market. Also interacting with unions and interest groups concerning their procurement strategies can be seen as partnership activity. Additionally, contracting collaboration with other municipalities was considered as a very important form of partnership.



"They [successful partnerships] are so unusual, that I would not advertise them as good examples."

*Procurement professional*

"If you don't think of partnering only as a contractual relationship, but more like as a collaboration relationship, then we have the whole market involved... "

*Procurement professional*

### **Goals of each participant**

*The procurement officials* of municipalities have the goal of reaching better requirement definitions for the tender documents, so that they are able to ask for what they really need. They also want to understand the market better - they want to find out what actors exist in the market and what can they provide. They also engage in dialogue in order to find out which tendering approach is best suited in each situation, especially how can more bids be gained for tenders and further increase competition between companies. It is crucial for the tendering and the contract implementation phase success to have an understanding of a specific industry logic, especially concerning contract terms and pricing.

*Companies* have the goal of having a profitable business relationship with a reliable customer. They want to sell their service to public organizations, since the volumes are often stable and they can trust the customer to pay on time. Still, in order to successfully participate in tenders and also have a good contractual relationship, companies need more knowledge about the official tender process and of the public contracting authorities' operational and decision-making logic. They would also want long-term relationships and partnership to develop the contracts.

*The substance experts and unit employees* of the municipality, who are often also end users, wish to have reliable service providers and service that match the agreed service level. They also want to keep their budget on planned levels. In order to avoid unexpected problems and costs during

the contract term, the substance expertise unit should engage in market dialogue that ensures that contract terms, service levels, communication responsibilities and pricing are clear to all participants.

*End customer* has the goal of receiving a service they can be content with. End users want their voice heard in the decisionmaking processes and also an opportunity to give feedback. Many users are ready to actively take part in procurement planning.

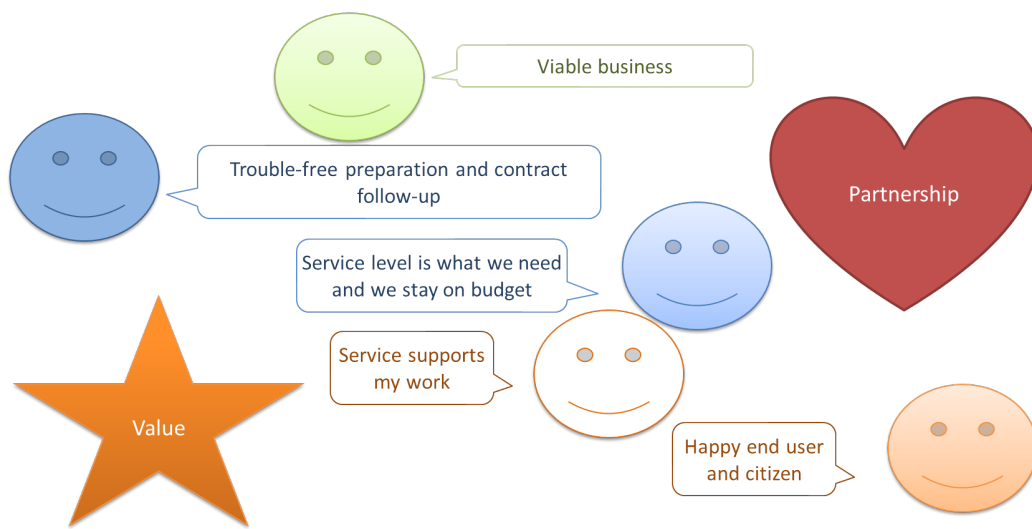


Figure 3.3: Goals of market dialogue

### 3.2.3 Participants

This section describes the findings related to the participants of market dialogue. The characteristics of each participant, their responsibilities in the process and the relationships between participants are covered in the following descriptions. The main findings are summarized in the end.

#### End customer

In public procurement, the users and customers are not only the municipality citizens, but also the municipality employees working in different

units. Often the procured services and products are used in producing the service to the end customer. Thus, the needs of different internal and external customers of the municipality should be considered.

The end users feel that they are not involved in the procurement process at all. The substance experts often hear negative feedback about price being the only criteria for service provider selection. In cleaning service procurement, the end users do not take part in defining quality criteria, and don't even know what the criteria are. Service descriptions are shown to the school principals but made by the substance experts according to a standard template that has been in use for more than five years. One substance expert sees the education unit as their customer.

“The role of the principal is quite minimal. We are merely notified, who will be cleaning.”

*End user*

The substance experts also get direct and user feedback concerning the quality of cleaning. The users often complain about things that are visible but not too important concerning the health requirements, which are the substance experts' biggest concern in cleaning. Thus in their opinion, customers often don't know what the real need is. Substance experts suggest that end users are often very passive. With very little consideration, the need for cleaning could be made smaller, since a costly cleaning professional is not required to collect trash from the floor. A lot of money could be saved, if the cleaning staff could concentrate on special tasks instead of cleaning the blackboards no one bothered to wipe.

“Basic furniture arranging and tasks caused by unnecessary littering, these can take up to half of the total cleaning time. You want cleaning to cost as little as possible and be efficient, then you have professional people who are paid to do special cleaning tasks, with machines and so. I don't understand why a different person has to come clean a blackboard, why can't the user

clean it after use. [...] And then these new directors say, that we need to produce what the customer wants, since we want to profile ourselves as a good service producer. Then at least I am against it, come on, the tax-payers are paying for it in the end, if I am cleaning people's coffee makers, fridges or something like that... "

*Substance expert*

End users are also tax payers. They are not only interested in the services they receive, but also how their tax money is spent. End users are not familiar with the procurement law, and do not understand the decision-making processes of the municipality. Even when they are involved in the service process to a particular extent, they do not know how the service has been produced and how much budget was used for it. If end users would have more knowledge and would be more actively involved in the procurement process, they would be able to help in prioritizing different service needs and also lower the need for service in some areas.

### **Functional unit and substance experts**

The procurement officials thought that market knowledge is the responsibility of the substance experts. Being in contact with the end user and taking care of contract follow-up was seen also as the responsibility of the substance experts. The procurement center did not have a good understanding of whether the substance units were actually doing any market dialogue prior to tender or mapping end customer needs - their conception was that most probably these activities are quite minimal. The productization and defining specifications is the responsibility of substance experts, but sometimes they are not interested and the procurement officials must participate in specifying the product or service.

"It's quite hard to move forward, you try to find the information somewhere, but you don't know if it's fulfilling their need,

everything is then left open. I make a suggestion and ask them if it's ok, they might reply that it's ok, but it's possible no one even read it through."

*Procurement professional, City A*

Even when the substance experts are active in preparing the procurement, they sometimes have problems in finding specific expertise concerning a new kind of product or service. Sometimes they can find an expert within the municipality and sometimes not.

"I had to try and find the kind of expertise, and luckily I found a physicist at the hospital district, whom I gave our things, I had also copied some DICOM-standards and such from the hospital district's invitations to tender, they were all Greek to me... "

*Substance expert, City A*

The company representatives are in the opinion that in the cleaning services, the invitations to tender are usually done well. This is because the substance experts of the municipality are experts in the field of cleaning and experienced in tendering.

One of the cleaning service provider companies thought that it was much more difficult to work with a public procurer compared to a private client in case they had improvement ideas during the contract term. They felt that the municipality was often dictating everything, even simple practicalities without consulting the service provider. However, one of the substance experts agreed with the view and thought the service could improve if the companies ideas would be accepted more openly.

"I think there is a certain attitude here, we say, how things are and will be, this is what you'll have to do. I think our people could be more open to listen and accept better modes of operations."

*Substance expert*

### **Procurement professionals**

Working communication between substance experts and the procurement unit was seen as an important aspect in successful procurement. The procurement unit's main responsibility is to provide procurement and legal expertise. Technical dialogue is the responsibility of the procurement professionals, since it is thought to require expertise that the substance experts don't have. Also, since technical dialogue is mentioned in the Government Bill, it is considered almost a legal activity, and therefore the procurement professionals with their legal expertise should be conducting it. Some substance experts think that almost all kinds of dialogue with the market are forbidden, and therefore procurement center is the only party that can organize meetings or info sessions for companies.

"I guess that the principles of the law determine, that companies' help can't be used here. I know that the law allows some procedures, like requesting for information or organizing these info sessions, where current markets can be mapped. These have always been organized by the procurement center, since they have the legal expertise and they know what is appropriate, how can these meetings be held."

*Substance expert, City A*

### **Companies**

Participation of companies was considered to be difficult in many senses, since the logic of buying and selling is different in the public and private sectors. Companies have to learn, how to approach public authorities with their offering, not to mention the specific procedures they have to know in order to participate in tenders.

"And the more there are differences between the public and private [ways of operating], the harder it is for companies to

participate in these tenders, because they don't understand, it's like a foreign language to them."

*Procurement professional, City B*

### Summary

*End customer* is the beneficiary of public services. They are familiar with their own needs, but often have very limited knowledge of municipality's decision-making and the procurement process.

*Substance experts of the municipality* have know-how of the services they produce and procure from companies. They are often also the end users. They are not always very familiar with the constraints and possibilities of procurement law, and also do not possess contract management expertise. Some substance experts are not motivated to take part in procurement, and refuse to share information with the persons preparing tender documents. On the other hand, some substance experts are very motivated and take the responsibility of tender preparations, and also engage in dialogue with suppliers and end customers. Lack of resources often limits substance experts' participation.

*Procurement professionals* are experts of procurement law and procedures. In large municipalities, there is a centralized unit for procurement expertise. In many cases, procurement experts may also work at specific functional unit and specialize in a certain area. Usually, procurement experts lack knowledge of specific services and products and the industries producing them. They are often not familiar with end user needs, and have to rely on the information provided by functional units. Expertise on proactive contracting and contract management is often limited and not within their interest. The procurement professionals' workload is often so large that they don't have time or resources for market dialogue or contract management.

*Companies* are experts of the service they provide. They also usually know the customer needs well. Companies are not familiar with the op-

erating logic of public organizations and have limited knowledge of the procurement law, as well as little resources to allocate for preparing tender offers. Thus sometimes their cooperation with municipalities is difficult.

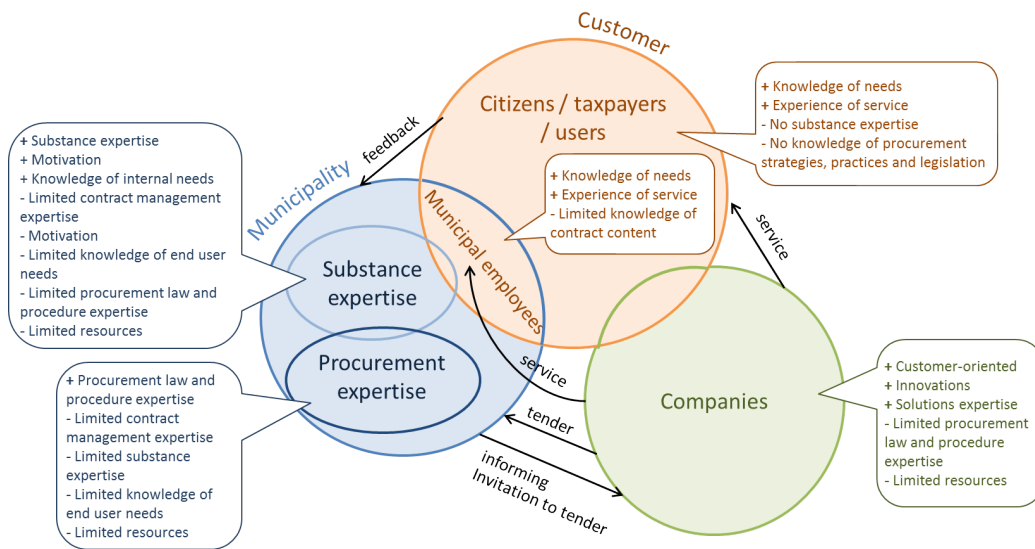


Figure 3.4: Participants of market dialogue and their primary activities

### 3.2.4 Means and methods

In this section, the means and methods of market dialogue are described. The findings are divided to three parts, two of them describing the preparation and contract implementation phases and the third concentrating on continuous market dialogue. Finally, the findings are briefly summarized.

#### Preparation phase

Prior to releasing the invitation to tender, there are many means to engage in market dialogue. Some companies had not participated in market dialogue with public procurers. They thought that discussion before the official process would help both parties find good modes of operation and



cooperation, and recognize where also savings could be made. The companies wanted to know, how and by whom the tenders are evaluated in specific cases, in order to tailor their tender to get more points. The companies were following new tenders on a regular basis, and thought it took a lot of effort from them to always know about coming tenders in their field. The notices at HILMA are sometimes missed because the company does not know when to expect it to be released. Some companies, who had previously participated in tendering, received notifications from the procurer if a new tender was coming up.

“We could together find savings and the optimal service level for each location [...] Some schools are older and require more or different kind of cleaning.”

*Company representative*

The companies felt that it is impossible to influence on the future contract terms, since in their field there is no dialogue before the tender. Those companies, who had a chance to participate in dialogue before the tender, thought it was beneficial for both parties. They had had a chance to ask questions and give comments on a tender draft. However, they were hoping to have several rounds of commenting and asking questions before the final invitation to tender, because one round is often not enough to clear out all the errors and unclarities.

“We could send questions about unclear things by a certain date, because at that point the tender can still be adjusted. I still thought it was quite slow though, it could have started earlier already with the tender drafts and then after correcting it, we could still ask more questions.”

*Company representative*

One of the interviewed companies was in a close contact with the municipality during the preparation period. The end users, who were also

involved in specifying the procurement requirements, notified the company every time they knew a new purchase was coming up. The company was also actively informing the municipality about their products and services. When the procurement preparation began, a municipal officer contacted the company to ask for help in defining the specifications, since they did not have sufficient expertise to find solutions to the challenges of the particular case. The municipality representatives were able to decide the best solution based on the company's help and continued by releasing the official invitation to tender.

"I got to know about the tender when he called me, and said they have a really small space, what can we do with this? I got the pictures and made a suggestion about machines that would fit the space and how to place them. We had experience from similar challenges and they could consider based on that."

*Company representative*

The company also hoped for a chance to discuss with the end user before the tendering. In their opinion, it is even more important that everyone within the municipality would discuss together and involve the end user in order to find out the real need.

The substance experts thought that holding info sessions before tendering was a good way to inform the companies about new contract terms and policies. Some of the substance experts thought it was illegal to have dialogue with companies, thus they only held info sessions after publishing the invitation to tender. This way, the companies could no longer influence the tender specifications. The companies, who participated, usually did not ask many questions.

The procurement officials of the municipality had more experience of market dialogue. It was usual, that they first searched the internet for information. In addition, they often consulted with companies they currently or previously had contracts with. Officials mentioned that they do both

specified form and free-form dialogue. In the preparation phase, it was considered most fruitful to have meetings with potential suppliers as well as communicate the need in writing. Informants stated that before preparing the final documents, it is easier to get information from companies if the initial drafts are already being used in the discussions.

“The specified form means for example that we announce at HILMA, that we are preparing a tender and ask them to sign up for technical dialogue, then we send them questions. Free-form dialogue, it can basically mean that you make a few phone calls to suppliers who you think are good, and ask them for information.”

*Procurement professional*

The procurement professionals also hold meetings and info sessions with potential suppliers. Having a certain theme for the meeting was considered important. Whether the meeting is about a single procurement or a general session concerning all procurement of a municipality unit, defines who of the municipality substance experts should be involved and which companies should be invited. Massive events were not considered effective for dialogue. Generally, if there are many companies present at the same meeting, they are not very open to discuss their offering, and only show up to monitor the situation. One-on-one meetings are usually to most productive. The willingness to discuss openly seems to depend on the industry.

“In social and health services, we have these service providers who are in the business for ideological reasons, so they are usually most open to discussions. [...] Of course in IT, there is no discussion at all.”

*Procurement professional*

The interviewees clarified, that technical dialogue is only one way of getting information for a specific case. Prior to specific questions, knowl-

edge of the market should already exist. The procurer should find out, what kind of companies are there, what is the market situation in terms of pricing and competition, and choose the right procedure and approach for the tender accordingly. Dialogue is especially important in cases that are tendered rarely. Since in some areas the technical development is not very fast or the needs are already well known by the substance experts and current suppliers, dialogue in the preparation phase is not as crucial.

In the procurement center, there were no negative experiences concerning market dialogue, they had not received any complaints or appeals related to it. In the end, all the information regarding the tender is given in invitation to tender. They thought there was nothing to fear about market or technical dialogue, but acknowledged that not everyone in the municipality were thinking the same way. Realizing the opportunities and not only the restrictions of the law is the key for good market dialogue.

“Maybe it’s because in the old days people wanted to do tenders in silence, and they have kept that tradition, they have thought that silence will make sure everyone is treated the same. Maybe it also has to do with the fact that we are officials, and officials are used to working in a certain way.”

*Procurement professional*

A company participating in the tendering of wood and metalworking machines was hoping for more market dialogue. Market dialogue is not just about giving information and demonstrations, but also interaction. The company was also prepared to introduce customers to reference sites.

“I think that being in contact, interacting and demonstrating and so on, I think it’s really important. I mean, if I’m buying something, I want to see, not the brochure but to hear and see what is out there. [...] And every time we can, we can ask the customer to come and see reference sites with us. But this needs to happen before HILMA [invitation to tender].”

*Company representative*

Involving the end user during the preparation is an area that municipalities have not widely considered. In some cases, the end user actually defines the service or product to be purchased – for example a wood and metalwork teacher is discussing with both the procurement team and companies and also takes part in decision-making. In most cases, the end customer is seen more as a threat, since they might ask for things there is no budget for. However, the procurement officials are trying to find methods to map end user needs and prioritize them as a part of specifications definition.

“It will be the thread we will take into account in the future [...] We will think of how the end user is acknowledged in each area and how to improve it [...] I think you have to get rid of your mindset and go to the end users and really listen to them. [...] You have to place the needs in priority order and think how they could be taken into account, it should be the guiding light in procurement, not only in services but also in products...”

*Procurement professional*

A general procurement preparation can, in many typical cases, follow the process described here. The preparation process begins with defining the initial need in the municipality’s functional unit, by the responsible substance expert. Procurement professional (or procurement center) is contacted in order to get support for wording the specifications for the official tender documents. The responsible substance expert gathers a team of all those experts who are needed for defining specifications and choosing the award criteria. In some cases, more information is requested from companies via email or phone calls, and also by starting a technical dialogue in HILMA. If the case is rare or complex, there is not enough expertise within the municipality or a completely new service or product is being procured,

meetings with potential suppliers should be organized. Giving the companies a possibility to comment drafts of tender documents and the contract itself and ask questions are effective ways to find the right wording and spot errors before the official process is started. Several rounds of questions and comments also helps to achieve tender documents that are clear for both the procurer and the companies. This process is a suggestion that can be applied in several situations, however not in all, thus the methods should always be adjusted to suit the specific case and its needs, as well as the organization in question.

Dialogue prior to releasing the contract notice is not only advantageous for acquiring information about products or services, but also for finding out the specific contract and pricing terms of the industry. Better knowledge of the operating mode of the suppliers reduces misunderstandings during the contract term.

### **Contract implementation phase**

After the official procurement process is finished and the contract has been awarded to one or more suppliers, the contract implementation phase begins.

The companies, who took part in the tendering but did not win the contract, can request to see the tender documents and reasons behind the final decision. Some municipalities offer a chance to arrange a meeting where reasons for the company's losing or exclusion from tendering can be discussed thoroughly. In City A, these meetings were considered to be fruitful, since the companies could get a better understanding of what they should have done different. As a result, the companies don't make groundless appeals to market court.

“Right after competitive tendering, once the contract is awarded, we have given an opportunity for the lost companies to come and discuss and give feedback, they can share their experience

and how they think something should have been done differently. We can also note right away the things we should remember next time.”

*Procurement professional*

Once the contract is signed, methods for feedback and contract adjustments have to be put in place in order to enable effective cooperation. Feedback should be gathered between end users, municipality employee end users, companies and substance experts. Feedback is traditionally seen as coming from customers, or the procurer.

Service quality is usually monitored by holding meetings and periodical checks on site. The quality levels are followed closely by the substance experts together with the service provider. If quality is not on the agreed level, complaints are made and the service monitored more closely. Also spot checks are made. If the quality monitoring procedures were agreed already in the tendering phase, and contact persons were clearly assigned, the system usually worked well for both the companies and the municipality. However, despite feedback channels, follow-up meetings and assigned contact persons, sometimes there were disagreements and lack of communication between the provider, the municipality unit and the end users.

The companies experienced problems in the communication with the municipality during the contract term. For the cleaning service provider, the contact person is usually a service supervisor in the municipality's cleaning unit. The supervisor does monthly quality checks together with the company representative, and the report is sent to the school principal. The arrangement worked well for quality rounds, but since the service supervisor did not work daily at the school, the information about space schedule changes was often not transferring to the cleaning company. The company representatives would want one person, possibly an end-user, who knows the day-to-day activities at the school, to pass them information about schedule changes. It is also important that the end users know who is providing the service to them and what is included in the contract.

Meetings between service provider and end users are an effective way to begin the cooperation.

“It took me only an hour to be there, and in the same manner in any school, to discuss with them [the teaching staff] about what we will do there, what is our responsibility, they can ask us. They can ask about their garbage cans, when will we empty them...”

*Company representative*

Often the end user who did not know the contract, was complaining about things that the company was not even paid to do in the first place, and processing these groundless complaints took a lot of effort to process together with the municipality.

“The customer gets to influence a lot, sometimes too much, and I think at that point the City should tell them, what is appropriate. We can’t go to the principal and tell him what is included in the cleaning service, I think the City should be on our side there, and let them know what suitable cleaning level is.”

*Company representative*

The substance experts have recognized the same problem with end users. Therefore, they try to avoid the end user being in contact directly with the service provider, since they might ask for things that are not part of the contract. Involving the end users from the beginning and informing them about the contract content might reduce groundless complaints.

Companies often felt that if there were problems with the service, the municipality or the end users were dictating the actions taken, and the company could not address the problems originating from the municipality side. Some of the interviewed companies implied that their position during the contract term was not equal with the municipality. The companies felt that if problems occurred, they were always blamed and developing the contract was always dictated by the municipality.



In the companies' point of view, if they had ideas for developing the service, presenting them to the municipality is too big of a risk during contract term. Service providers often have good ideas for saving money and resources, but they feel they have no right to make suggestions. Especially when they saw a need for extra service, they were afraid that the municipality would just see the company as a profit-seeking crook. However, the company in question has not tried to open discussion about these topics with the municipality and has chosen to stay quiet.

For some services, special communication and feedback systems are being developed. The end customer will know when and by whom for example a repair will be made, and can send feedback after the service has been delivered. This way the service provider can communicate directly with the end customer without having the responsible unit in the middle.

Municipalities also would want an electronic system for reporting and reclamations during the contract term, which would help in monitoring the whole municipality's contract implementation.

Procurement professionals emphasize the importance of gathering lessons learned from both tendering and contract term to be taken into account the next time similar products or services are tendered. But because the contract follow-up is usually done within the functional units instead of procurement center, collecting experiences should be the substance experts' task.

### **Continuous dialogue**

Substance experts mentioned that they often do not know any other companies in the market except those who have participated in tendering. It is considered crucial that the units procuring services and products follow what is happening in the market, even without a procurement coming up in the near future. Once knowledge of the market and providers already exists at the start of a tender process, the preparation and case-specific market dialogue can move forward faster. Also monitoring whether public

contracts are causing disturbances in the market is important in order to have healthy competition in the market during future tenders. Accordingly, the municipality should plan keeping the long-term effects in mind.

“Operating without spending time on researching the environment and long-term effects, you are only putting out fires, only when problems surface you take care of them. But we should operate in a way, where we predict things before they happen and also put enough resources on that.”

*Procurement professional*

If the companies know well in advance, what the municipality is planning to invest in in the future, they can prepare early enough. Holding periodic info sessions is one solution to keep the companies informed about strategic directions and future needs. The companies also need guidance in participating to tendering, especially if they have never tendered before. Companies often do not know the public authority and the logic behind their processes. Also discussion meetings with trade organizations would help both sides understand each other’s operational logic.

“A monthly meeting, where we could have a dialogue with trade organization. Not just for certain companies, since we would not discuss a specific tendering, I mean you cannot discuss anything specific, but have a dialogue on a general level about procurement. ”

*Procurement professional*

The municipality as a whole should also collect feedback of all procurement processes from participated companies, in order to get the suppliers’ view. Also collecting feedback from companies who have won contracts with the municipality might help to gain awareness on how the municipality appears as a contractual partner.

Companies should also be active in inviting municipalities to learn about new solutions and technologies. These meetings should not be “sales meetings”, but concentrate on discussing the needs and solutions, since the procurer cannot negotiate a purchase without a competitive tendering.

A need for means of dialogue between not only two but all participants was identified by workshop participants. They thought that since procurement has an effect on so many parts of the society and the whole picture can not be clarified through interactions between just two, a forum should exist to integrate all views together. In this way, also planning for long term would become possible. No specific structure was suggested for this, but it seems realistic to achieve structures similar to this by developing organizational communications and management models. It was stated, that high-level dialogue should be facilitated by the strategic decision-making of the municipality in order to have practical relevance.

### **Summary**

Means and methods of market dialogue in different procurement phases are summarized in this section. A visualized process model of market dialogue can be found in Appendix D.

In the contract preparation phase, the contracting authority should inform potential suppliers about upcoming tenders well in advance. They can organize events, workshops or one-on-one meetings to discuss the contents and procedures of the procurement. Drafts of requirement specifications and invitation to tender can be sent to potential suppliers for commenting, also specific questions can be asked from suppliers. These activities can be performed by either procurement professionals or substance professionals. However, also companies should be active in informing the municipality of their solutions and ideas. The end user can be involved in the process by using service design methods as well as feedback from previous contracts. When end users are involved, the probability of them being content with the service is much higher, and needs can also be pri-

oritized. Companies can also map end user needs. It is crucial that these activities are carried out well in advance of releasing the contract notice, since after that the specifications are final.

After the contract has been awarded, communication responsibilities and contract follow-up procedures are set. All parties should have appropriate channels for communication and feedback. All participants should also be informed of the content of the contract - once they know what has been agreed about, there will be less unnecessary complaints. The contracting unit should give a possibility to suppliers who lost the tender to discuss reasons for the end result. Feedback should be gathered from all participants during the contract implementation and utilized during the next tender process.

Also forms of continuous dialogue should take place between the participants. The substance experts should keep themselves informed of market situation, companies on the market and the development of their offering. Once the foundation is already laid before the tendering begins, market dialogue does not require too much additional time or resources. The municipality can plan for the long term better once they know how the market is developing. Companies should be active in informing municipalities of their new solutions, although there would be no upcoming tenders planned. Periodical info sessions can be held to keep both sides informed of current situation and also of long term plans.

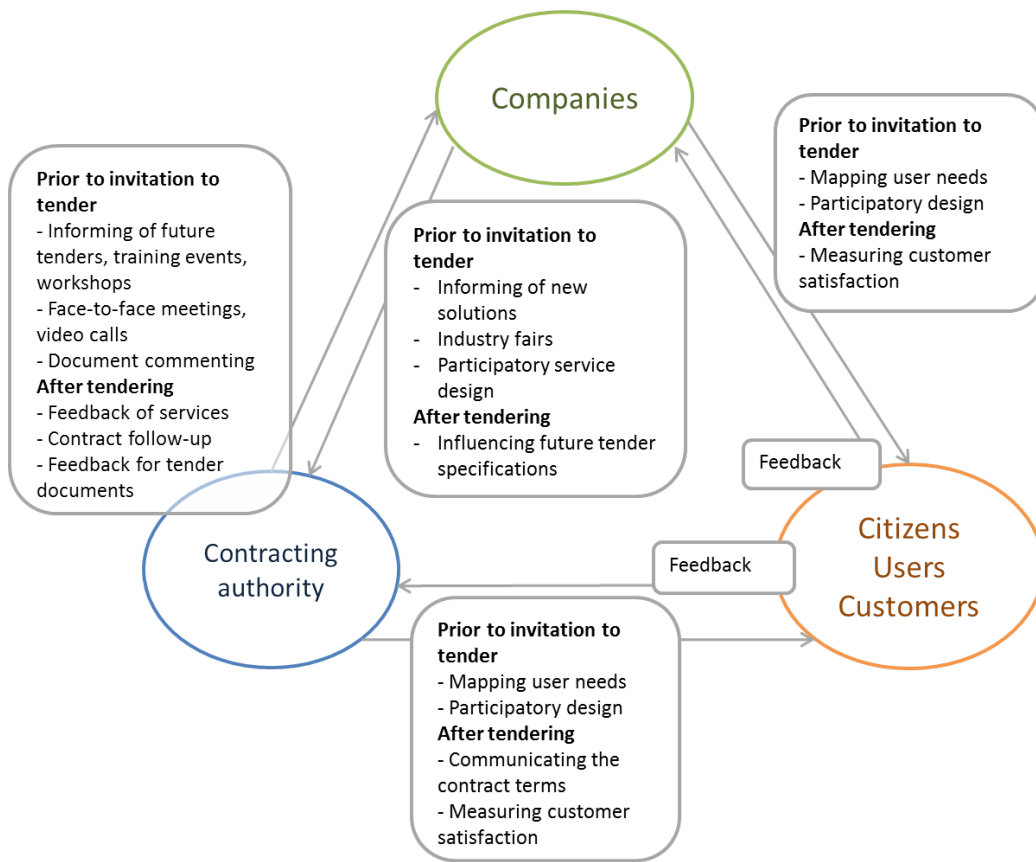


Figure 3.5: Means and methods of market dialogue between different participants

### **3.3 The role of market dialogue in transforming the dominant logic of public procurement**

In this section, the empirical findings related to market dialogue's role in transforming the logic of public procurement is briefly discussed.

Informants stated that the operational logic of public organizations should change in order to keep the public economy on a sustainable track and fulfill the citizens' increasing demand for services, caused by aging of the population. One of the greatest concerns were, that public authorities first procure services and products using the cheapest price criteria, and then are forced to buy more because the service does not fulfill the need. Many risks were identified because the time and resources needed for preparation are constantly underestimated. When contracts are not planned well enough, and decisions are made with very limited knowledge of the market, the end result is often poor.

Many informants stressed the importance of cooperation between all participants of procurement. Lack of holistic long-term vision and planning was seen to cause many of the problems associated with public contracts. There is not enough planning and preparation in order to foresee contract issues and problems, and the effects of short-term savings on the long-term budget were not always considered. Also the service's impact on other service needs and costs associated to them are often not taken into account. Additionally, the attitude of municipal officers who saw the procurement law only as a restrictive structure was considered to hinder effective procurement.

Thus, market dialogue as a form of communication that enables collaboration would affect the success of public procurement if it was used more widely. There is no collaboration without communication and common understanding. There are great barriers between public authorities', companies' and end users' cultures and ways of working, and market dialogue is needed to cross them.

In conclusion, the empirical findings suggest that in order to change the operational logic of public contracting authorities into collaboration, an encounter process such as market dialogue is needed.

## Chapter 4

# Discussion

Here I discuss the results of my research. Findings from both the theoretical framework and empirical research are brought together. First, I will discuss the concept of market dialogue. Then, I will discuss market dialogue as enabler in the transformation of dominant logic.

### 4.1 Market dialogue

Forming the initial framework for market dialogue was challenging due to very limited previous research on the topic. Evidence in previous literature mentions the communication between the procurer and the supplier in order to help specifying challenging solution purchases. Technical dialogue, which is also mentioned in the Government Bill as one way of preparing tender specifications, had not been studied in great extent either.

The empirical findings revealed more about market dialogue and the need for it in public procurement. Results of the analysis show that all participants of public procurement should also be involved in market dialogue, which was also confirmed by the theoretical framework, that explored public procurement as a value co-creation process.

The empirical findings suggest that market dialogue can utilize more diverse methods than what the means of technical dialogue allow. The



findings also show that market dialogue is not needed only in the tender preparation phase, but it should be carried out in some form continuously. It is obvious that some of these activities are common in many organisations, they just have not been labeled as market dialogue. However, it was discovered that many public organisations engage in hardly any dialogue, communication or collaboration during any phase of procurement. They may not even see procurement as a larger process that spans across planning, preparation and contract implementation. Thus, defining the concept of market dialogue to cover all participants and phases that are crucial in terms of communication and collaboration, is necessary.

Empirical and theoretical data showed a need for increasing market dialogue. Participants of public procurement have so far deemed market dialogue as a difficult topic, since the procurement law has not explicitly defined, what procedures are non-discriminating, open, transparent and proportional. The assumption in many cases has been, that anything not specifically allowed by the legislation must be forbidden. The municipal officers often do not want to take risks in procurement, since the fear of ending up in market court is so prevalent. However, those that saw market dialogue in a positive light, had not experienced any appeals or court cases related to market dialogue.

Finally, some of the findings called for not only two-way interactions between participants, but for a "market integrator" that would act as a communication forum between all actors. An integrator would be needed to gain understanding of the comprehensive situation and consider long-term effects to different stakeholders. It is not very likely that a separate participant should make sense to be added in the process, but similar advantages could still be gained by developing communication of the network and the management models of organisations.

## 4.2 Dominant logic transformation potential of market dialogue

Implied by the empirical and theoretical analysis, public organisations follow a product-dominant logic, focusing on "making, selling and consuming". In a product-dominant view, organisation views the procurement of goods and services as a set of transactions, which are correct in the eyes of the procurement law.

This logic has led to many problems in procurement: the very limited time and resources spent on planning and preparing specifications and contracts cause extensive issues during the contract term. When issues are not prepared for in the tendering phase, unexpected problems occur during contract implementation. This often also brings additional costs. Also, when all participants of the value creation process are not involved or taken into account, the value will not be realized by the end customer. Only the customer can create value, but the suppliers of the service, thus the municipality and the service provider company, have to co-create the value proposition for the customer.

According to the theoretical framework, market dialogue is an encounter process between the supplier and the customer processes. This encounter process consists of communication encounters between different actors. Without these communication encounters between the companies, public procurement authorities, their employees and end users, the supplier processes cannot be aligned with the customer's. In other words, if the supplier does not know how the customer creates value, no effective value propositions can be made. This is because public procurement can only be successful if it is carried out with a goal of end user value.

According to the results of the empirical study, the procurement process needs market dialogue to transform its logic to a service-oriented one. The relationship of the process of procuring services and the service itself is interesting. This thesis has focused on explaining the procurement pro-

cess from a service-dominant point of view. However, also the target of procurement activities, the actual service, should be considered with this dominant logic.

Strategies and strategy-making in municipalities have a great impact on public procurement. Strategies affect the budget and priorities of procurement. Leadership and management structures determine, how much resources are allocated to procurement and contract management activities. The problem identified in this study is concerned with low priority of procurement in municipalities. The decision makers do not always understand the significance of procurement, although it has an impact on both the budget and the quality of public services. Strategies' relationship with procurement, as well as the effect of political decision-making, are not in the scope of this study and thus have not been addressed further.

## Chapter 5

# Conclusions

### 5.1 Results

This section concludes the thesis and provides the main results and answers to research questions.

1. What is market dialogue in public procurement?
  - (a) What are the goals of market dialogue?
  - (b) Who are the participants of market dialogue?
  - (c) What means and methods can be used in market dialogue?
2. What is the role of market dialogue in the transformation from product to service-dominant logic in public procurement process?

#### **What is market dialogue?**

The goal of market dialogue is different for different participants. However, all parties have the goal of market dialogue, that results in a well-functioning contractual relationship, fulfills the needs of users and helps the public services to develop into a sustainable direction.

Participants of market dialogue are the procurement professionals and substance experts of the contracting authority, the service provider companies and the end users.

The means and methods of market dialogue have been identified to include the following:

**Prior to invitation to tender**

- Informing of future tenders, training events, workshops
- Face-to-face meetings, video calls
- Document commenting
- Mapping user needs
- Participatory design
- Informing of new solutions
- Industry fairs

**After tendering**

- Feedback of services
- Contract follow-up
- Feedback for tender documents

**Continuous means**

- Discussions concerning long-term plans
- Feedback of services
- Informing of new solutions
- Industry fairs

Summarizing all three subquestions into one definition, the following can be concluded:

**Market dialogue** is an encounter process where

- *The participants of public contracting process* share and transfer knowledge in addition to the tendering process regulated by law,
- To achieve *successful contracts* between the public contracting authority and the service provider as well as
- Benefit the customers by co-creating *value propositions* that are aligned with both customer and supplier processes.

### **What is the role of market dialogue in the transformation from product to service-dominant logic in public procurement process?**

Market dialogue is an encounter process between supplier processes (both private company and public contracting unit) and customer processes (both internal user and end user). The logic of public contracting authorities can be transformed from product-oriented into service-oriented through an encounter process such as market dialogue. Market dialogue, as defined by the first research question, supports reaching the goals of the entire procurement process.

## **5.2 Evaluation of the research**

Validity of a qualitative study can be referred to as plausible, credible, trustworthy and defensible research. Johnson (1997) has described three types of validity: descriptive, interpretive and theoretical validity. Descriptive validity refers to accuracy of the facts that the researcher reports. Interpretive validity means the degree that the researcher is able to understand and correctly report the participants' viewpoints, thoughts and experiences.

Theoretical validity refers to the fit between the data and the resulting theory, thus the explanation must fit the data in order to be credible and defensible.

Descriptive and interpretive validity can be achieved through involving many different data sources, methods and researchers, also called triangulation. In this study, many different data sources were used, and the data was collected by multiple investigators. I was able to confirm the interpretations with other members of the research team during data collection and analysis, since they had been present through the entire data collection. Documenting the data in notes, transcripts and recordings helped to ensure descriptive validity. Data sources from different organizations were used, and the data was collected in multiple instances and locations.

Theory triangulation means that the researcher utilizes multiple theories and perspectives to assist in interpretation and explaining the data. This research posed a problem of basically non-existent previous research on the topic of market dialogue. Therefore, few general frameworks of economic exchange processes were chosen to help in theory construction.

### **Theory limitations**

The limitations of the theoretical part of this study is discussed in this section.

The first limitation was posed by the nature of the research problem: there was hardly any previous scientific literature concerning market dialogue. Therefore, theoretical foundation had to be built using literature from other disciplines and from the private sector point of view. Characteristics of public sector were taken into account in utilizing private sector sources, though some misleading assumptions may have been made.

Because of extensive amount of empirical data used in new theory formation, the scope of the theoretical background was left rather narrow. However, considering the defined scope and the goals of the study, the results gained fit the theoretical foundation well.

## Data limitations

Some data limitations also exist in the study. The interview data was collected in another research project than the workshop data. I was not able to take part in the previous data collection, and the focus of the study was different. The data did not offer direct answers to the research questions. Therefore, some of the results that were solely dependent on case data, must be viewed with caution. However, most of the empirical findings, which are also weighted in the final conclusions, were validated in the workshops. Also, since majority of the analysis did not take place during data collection, previous findings did not affect its progress.

The informants of the study are a large and rather heterogenous group, but end users were not represented in the same extent as other participants were. This may have resulted in a limited view of the end users to be seen in the end results. On the other hand, other participants also had experience from being an end user and were able to discuss issues related to end users of the procurement process.

## 5.3 Theoretical implications

The theoretical implications are limited due to the novelty of the research area. The scope was also limited to public procurement in Finnish municipalities, thus generalizations can only be made in that context. On the other hand, municipalities share many characteristics with other public contracting authorities in Finland and within the European Union. The legislation principles are the same in the whole EU, although the role of the public sector varies between countries. Still, the framework can be cautiously applied in similar contexts.

The theoretical framework draws attention to aligning supplier processes with customer processes, and by using the encounter process of market dialogue, the suppliers are able to co-create value propositions to customers. Market dialogue consists of communication encounters, which



take place between all actors of the procurement process and utilize several different means and methods.

## 5.4 Practical implications

The goal of this study was to find a definition and a description to the concept of market dialogue. The results uncover many practical implications that participants of public procurement can utilize.

Public procurers should be encouraged to engage in market dialogue, and reserve enough time prior the competitive tendering in order to get the most benefit. The specific procurement case determines, how much dialogue is needed. Especially when new or innovative solutions are sought, or there is no previous experience of procuring a certain product or service, market dialogue is recommended. There is no exact recipe for conducting market dialogue, it depends on the case, which methods are the most advantageous.

Also companies can be active in market dialogue, waiting for the public authority's invitation is not always the best way to sell your solution. Companies must focus on informing the public procurer on solutions that fulfill the needs of end users.

## 5.5 Suggestions for future research

Procurement and service production strategies of municipalities have been left out of the scope of this study. Also the implications of political decisions on procurement have not been addressed.

- How are the strategies and strategy-making of the municipality present in procurement?

Transforming the logic of operating is not an easy task, since dominant logic is often not recognized by the persons who make decisions. Although

the problems with the current dominant logic have been identified, a more important question is, how the logic of the people working with public procurement can be transformed.

- How to transform the mindset of participants of public procurement from product to service-oriented view?

Legislation seems to guide the thoughts and actions of procurement officials. Therefore, the impact of legislation to these processes and mindsets needs further investigation.

- How can legislation support changing the mindset?

# Bibliography

- Bettis, R. and Prahalad, C. (1995). The dominant logic: Retrospective and extension. *Strategic Management Journal*, 16(1):5–14.
- Corbin, J. and Strauss, A. (2008). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*. Thousand Oaks, CA: SAGE Publications, Inc., 3rd edition.
- Dubois, A. and Gadde, L. (2012). Systematic combining: an abductive approach to case research. *Journal of Business Research*, 55(7):553—560.
- Eisenhardt, K. (1989). Building theories from case study research. *Academy of Management Review*, 14(4):532–550.
- European Commission (2011). Public procurement indicators 2010. [Online]. [http://ec.europa.eu/internal\\_market/publicprocurement/docs/indicators2010\\_en.pdf](http://ec.europa.eu/internal_market/publicprocurement/docs/indicators2010_en.pdf). Accessed 19.7.2013.
- Eurostat (2012). Annual government finance statistics. Eurostat [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/database). Accessed 12.12.2013.
- GHK (2010). Evaluation of SMEs' access to public procurement markets in the EU. Final report. [Online]. DG Enterprise and Industry. [http://ec.europa.eu/enterprise/policies/sme/business-environment/files/smes\\_access\\_to\\_public\\_procurement\\_final\\_report\\_2010\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/business-environment/files/smes_access_to_public_procurement_final_report_2010_en.pdf). Accessed 19.7.2013.

- Glaser, B. and Strauss, A. (2009). *The Discovery of Grounded Theory: Strategies for Qualitative Research*. Transaction Publishers.
- Gremler, D. D. (2004). The critical incident technique in service research. *Journal of Service Research*, 7(1):65–89.
- Grönroos, C. (1990). *Service management and marketing : managing the moments of truth in service competition*. Lexington, MA: Lexington Books.
- Grönroos, C. (2000). *Service management and marketing : A customer relationship management approach*.
- Hallituksen esitys (2006). HE 50/2006 vp. p.89-90. Hallituksen esitys Eduskunnalle laeiksi julkisista hankinnoista sekä vesi- ja energiahuollon, liikenteen ja postipalvelujen alalla toimivien yksiköiden hankinnoista.
- Hankintalaki (2007). 30.3.2007/348. Laki julkisista hankinnoista.
- Iloranta, K. and Pajunen-Muhonen, H. (2012). *Hankintojen johtaminen. Ostamisesta toimittajamarkkinoiden hallintaan*. Tietosanoma.
- Johnson, R. (1997). Examining the validity structure of qualitative research. *Education*, 118(2):282—292.
- Jylhä, O. (2011). Kunnalliset hankintayksiköt matkalla passiivisesta aktiiviseksi toimijaksi - Tutkimus kuntien hankintapalveluja keskitetysti hoitavien yksiköiden käytännöistä ja rakenteista. Master's thesis, University of Tampere.
- Karinkanta, P., Kontio, A., Krakau, T., Lahtinen, T., and With, S. (2012). *Yrityksen hankintaopas*. Helsingin Kamari.
- Karisto, P. and Lohivesi, K. (2007). Hankintamentaliteetit julkisten palveluiden ulkoistamisessa; sisältö ja seuraukset. *Kunnallistieteellinen aikakauskirja*, 35(1).

- Koskelainen, K., Pohjonen, S., Anttila, S., and Passera, S. (2013). Kilpailutustemppuradasta hyviin hankintoihin. Pro2Act-hankkeen loppuraportti. [http://www.kunnat.net/fi/tietopankit/uutisia/2013/20130606pro2actjulkistamisseminaari/Loppuraportti\\_Kilpailutustemppuradasta\\_hyviin\\_hankintoihin.pdf](http://www.kunnat.net/fi/tietopankit/uutisia/2013/20130606pro2actjulkistamisseminaari/Loppuraportti_Kilpailutustemppuradasta_hyviin_hankintoihin.pdf). Accessed 9.8.2013.
- Koskelainen, K., Pohjonen, S., and Wernick, A. (2012). Proactive and tri-logic procurement contracting. In Conference on Demand, Innovation and Policy: Underpinning Policy Trends with Academic Analysis. Manchester, UK: Manchester Institute of Innovative Research, MBS, University of Manchester.
- Kovacs, G. and Spens, K. (2005). Abductive reasoning in logistics research. *International Journal of Physical Distribution & Logistics Management*, 35(2):132—144.
- Lamming, R. (1993). *Beyond partnership: strategies for innovation and lean supply*. Prentice Hall.
- Lith, P. (2012). Kuntien hankinnat. Tilastollinen päivitysmuistio yksityisten tavara- ja palveluos-tojen merkityksestä kunta-alalla.
- Lundstrom, I. (2011). *Kuntien palveluhankintojen murros. Tutkimus kuntien palveluhankintojen kilpailuttamisessa esiintyvistä ongelmista ja niiden syistä*. PhD thesis, University of Tampere.
- Mäkelä, E. (2011). Tekninen dialogi - ratkaisu moneen ongelmaan julkisissa hankinnoissa? *Edilex*.
- Ng, I., Parry, G., Smith, L., Maull, R., and Briscoe, G. (2012). Transitioning from a goods-dominant to a service-dominant logic: Visualising the value proposition of Rolls-Royce. *Journal of Service Management*, 23(3):416–439.

- Patajoki, U. (2013). Towards a successful contractual relationship - Public service procurement from a small business perspective. Master's thesis, Aalto University.
- Payne, A., Storbacka, K., and Frow, P. (2008). Managing the co-creation of value. *Journal of the Academy of Marketing Science*, 36(1):83–96.
- Pohjonen, S. and Koskelainen, K. (2012). Visualization in triologic public procurement contracting. In Conference on Information Visualisation, July 10th-13th 2012. Montpellier, France.
- Prahalad, C. and Bettis, R. (1986). The Dominant Logic: a New Linkage Between Diversity and Performance. *Strategic Management Journal*, 7(6):485–501.
- Shostack, G. L. (1977). Breaking free from Product Marketing. *Journal of Marketing*, 41(2):73–80.
- Smeds, R., Krokfors, L., Ruokamo, H., and Staffans, A. (2010). *InnoSchool – välittävä koulu. Oppimisen verkostot, ympäristöt ja pedagogiikka*. Aalto-yliopiston teknillinen korkeakoulu.
- Storbacka, K. and Lehtinen, J. (2001). *Customer relationship management: Creating competitive advantage through win-win relationship strategies*. McGraw-Hill.
- Taylor, S., Fisher, D., and Dufresne, R. (2002). The Aesthetics of Management Storytelling - A Key to Organizational Learning. *Management Learning*, 33(3):313—330.
- van Weele, A. (2010). *Purchasing & supply chain management: analysis, strategy, planning and practice*. Cengage, 5th edition.
- Vargo, S. L. and Lusch, R. F. (2004). Evolving to a New Dominant Logic for Marketing. *Journal of Marketing*, 68(1):1–17.

- Vargo, S. L. and Lusch, R. F. (2008). Service-dominant logic: continuing the evolution. *Journal of the Academy of Marketing Science*, 36(1):1–10.
- Yin, R. (1981). Building theories from case study research. *Administrative Science Quarterly*, 26(1):58–65.

# Appendix A

## Interview questions

The interviews were made in Finnish, here they are translated into English.

### 1. Warm-up

- (a) Your name, organization, job description?
- (b) Your role in the case study process?

### 2. 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?

### 3. Roles and responsibilities

- (a) What things/tasks do you think you are responsible for?
- (b) What is your most important motivator?
- (c) What things/tasks do you think others are responsible for?
- (d) Do you feel that you are not always able to complete your tasks properly because someone else has failed to do his/her share?



(e) Are roles and responsibilities clear? (between departments)

(f) What changes should be done in responsibilities?

4. 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?

5. 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?

6. 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?

7. 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?

8. Procurement in municipal organization

- (a) Which regulations (legislation, instructions, strategies) is your job based on?
- (b) Black 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?

9. Who else should we interview?

10. Questions? Wishes?

## Appendix B

# Program of future workshop

### Future workshop 17.4.2013

8.45 Registration

9.00 Welcome

9.30 Sharing positive and negative experiences from public procurement in small groups

10.00 Break

10.15 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 Conclusions

12.00 End of the workshop

## **Appendix C**

# **Program of market dialogue workshop**

### **Market dialogue workshop 12.11.2013**

12.00 Introduction

12.30 General contracting process model

13.10 Break

13.20 Market dialogue model

14.20 Group work

15.00 Free discussion and networking

## **Appendix D**

# **Market dialogue process model**

