# Public administrators' engagement in services co-creation: Factors that foster and hinder organisational learning about citizens

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## Abstract

Citizens and public organizations are increasingly engaging in the co-creation of public services. To be successful, such co-creation efforts require public organizations to engage in organizational learning about citizens' value-creation processes. The purpose of this paper is to explore the antecedents of such organizational learning, drawing on Payne, Storbacka and Frow's framework about value co-creation management.

A model consisting of five factors is suggested and tested via a survey administered to a sample of 204 local government administrators in Italy. The findings highlight the significance of two positive antecedents (public administrators' level of citizen orientation and expected benefits from co-creation) and three negative antecedents (perceived citizens' lack of competencies and experience, perceived biases in citizens' perceptions, lack of resources) of organizational learning. From the managerial perspective, the model tested in this study can be used by public organizations to evaluate their level of organizational learning.

**Keywords:** total quality management, co-creation, service-dominant logic, citizen orientation, citizen participation, public service quality.

### **1. Introduction**

While citizens have been considered passive recipients of public services for a long time, their active role in the value co-creation process is now recognized and emphasized by both scholars and practitioners (Alves, 2013). According to the well-established co-creation framework developed in the private sector (Payne, Storbacka, & Frow, 2008) and successfully extended to the public sector (Gebauer, Johnson, & Enquist, 2010), public organizations can foster public services' value co-creation through five activities: customer's emotional engagement; self-service, i.e., the transfer of labor to the customer; the enhancement of the customer experience; problem-solving, i.e., supporting customer's self-selection using the provider's prescribed processes to solve her problem; and co-design, i.e., customer-supplier cooperation in designing or re-engineering services.

Several studies have shown how public organizations can increase their effectiveness and improve citizens' satisfaction by focusing on one or more of the five value co-creation activities. For example, SBB, the Swiss Federal Railway operator, was able to implement all five co-creation activities and reported a wide range of benefits, such as: increasing passengers' confidence about their personal safety, which led to greater use of the night-time network; reducing entry times and journey times through self-controlled tickets; meeting the needs of people with disabilities by co-designing specific services; and many others (Gebauer, et al., 2010). Moreover a recent international survey on public administrators (Bradwell & Marr, 2008) showed that engaging public-service users in service design or re-engineering led to several advantages, including: more citizen-oriented services, new ideas and higher transparency. As a result, citizen involvement in value co-creation reduces perception discrepancies between users and service providers, enhancing effectiveness (Jan, Lu, & Chou, 2012). Moreover, the experience of several municipalities also reveals that public services co-creation can lead to a better allocation of resources, thus improving efficiency (Cruickshank & Deakin, 2011).

Despite these benefits, the public sector is generally lagging behind in the adoption of value co-creation activities (Nunes, Galvão, & Cunha, 2014). In addition, several initiatives of co-creation within the public services context have failed (Chadwick, 2011). Most of previous research has blamed citizens for the lack of cooperation and for the failure of public service co-creation practices (Alford, 2002). Many citizens resist participating in co-creation activities because they must contribute in the form of time, expertise and effort (Linders, 2012) and feel that their contribution will not produce practical results (Parrado, Van Ryzin, Bovaird, & Löffler, 2013).

On the contrary, studies exploring public organizations' role in the failure to adopt co-creation activities are scarce and fragmented (Needham, 2008; Parrado, et al., 2013). As Payne et al.'s (2008) framework notes, co-creation is the result of three components: encounter processes (i.e., customer-provider interactions), customer value-creating processes (i.e., the contribution of the value-creation process), and the provider value-creating processes (i.e., the contribution processes are based on organizational learning about customers. Hence, to improve customers' experience, an organization should learn as much as possible about the customer. This knowledge may be collected during interactions (Payne, et al., 2008) or in the form of customer feedback (Di Pietro, Mugion, & Renzi, 2013). Therefore, in the absence of sufficient customer knowledge, organizational learning will not take place, representing an obstacle to co-creation.

Drawing on these premises, this paper attempts to complement our understanding of public services co-creation by exploring the antecedents of organizational learning about customers. From a theoretical perspective, a multidisciplinary approach involving quality management, marketing and public administration management is adopted.

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From the managerial perspective, the model suggested and tested in this study represents a tool for public organizations to evaluate their organizational learning. Moreover, activities to enhance organizational learning will be discussed.

The remainder of this paper continues as follows: In the next section, the concept of value cocreation is clarified in the context of public services by drawing on the service (dominant) perspective of marketing; studies on the factors that may explain the level of organizational learning within the provider of public services are then reviewed to build the research model; and the results of an empirical study are presented and discussed. Managerial implications and conclusions are drawn and presented in the final section of the paper.

#### 2. Public services co-creation: the role of organizational learning about customers

Drawing on the service-dominant (S-D) logic (Gummesson, Lusch, & Vargo, 2010; Vargo & Lusch, 2004), in the public sector it is now recognized that both the organization providing the service and the customer have an active role in the value-creation process (Alves, 2013). According to the value fulfillment approach (Grönroos, 2008), value is created by both the organization and the customers. Hence, the service experience is the result of co-creation efforts involving both the service provider and the citizen-customer (Gebauer, et al., 2010) in a continuous process of learning together (Ballantyne, 2004).

Several authors have highlighted the potential benefits of citizen participation in public services' value co-creation (Cassia & Magno, 2009; Dahlgaard, Pettersen, & Dahlgaard-Park, 2011). In general, this involvement is considered beneficial both from a tangible perspective, i.e., reducing service quality gaps and planning mistakes (Linders, 2012), and from a symbolic perspective, i.e., increasing citizen trust in public organizations and improving community cohesion (Cassia & Magno, 2011; Skidmore, Bound, & Lownsbrough, 2006). In addition, in a broader sense, citizen participation is fundamental to establishing a responsive and accountable democracy, gaining greater citizen support for government decisions and

increasing the ability to solve problems (Heikkila & Isett, 2007). Moreover, value co-creation may lead to a better use of available resources (Cruickshank & Deakin, 2011).

According to Payne et al.'s (2008) framework, the successful co-creation process is the result of the coordination among the following three types of processes:

-encounter processes, i.e., "exchange practices in which the parties exchange resources (e.g., money, products, work, information, time), as well as collaborative practices in which the parties jointly perform activities" (Payne, et al., 2008, p.90);

-customer value-creating processes, i.e., "the processes, resources and practices which customers use to manage their activities" (Payne, et al., 2008, p.85);

-supplier value-creating processes, i.e., "the process, resource and practices which the supplier uses to manage its business and its relationship with the customer" (Payne, et al., 2008, p.85). So far the scarce adoption (Nunes, et al., 2014) and the failure of public services' value cocreation initiatives has been mainly attributed to issues related either to customer valuecreating processes or to encounter processes. As for the first point, customers sometimes may have limited experience and biased perceptions of the service being co-created; therefore their active contribution to value co-creation is constrained (Van Ryzin & Immerwahr, 2007). As for the second point, tools and processes needed for the co-creation may have not been implemented (Cassia & Magno, 2009), and reaching coordination and consensus in value cocreation may require too much effort and time (Heikkila & Isett, 2007).

On the contrary, available studies seem to have overlooked supplier value-creating processes, which are based on organizational learning. The public organization should gain specific knowledge about customer value-creating processes, i.e., about how the customer experiences the service. In fact, the thorough understanding of customers' experiences is the starting point for co-creating customer-centric offerings (Grönroos, 2008). This deep understanding cannot be obtained by relying only on conventional market research because this tool cannot reproduce and measure emotions and cognitions triggered by experience (Kristensson,

Matthing, & Johansson, 2008). Such insights must be complemented with learning derived from the encounter processes (Payne, et al., 2008). Given that successful value co-creation will not be possible without organizational learning (Payne, et al., 2008), the purpose of this study is to explore factors that foster and hinder organizational learning about citizens. In particular, we focus on services provided by local governments, which are usually sensitive

to value co-creation practices, given their proximity to citizens (Van Ryzin, Immerwahr, & Altman, 2008).

#### 3. The development of research model

Drawing on the available literature and five in-depth interviews with local government administrators, a model explaining the level of organizational learning about citizens within local governments was developed. In particular, the analysis of available studies led us to identify five distinct, suitable antecedents (related to public officials' perceptions). Following the procedure by Bai et al. (2008), five semi-structured, in-depth interviews with local government administrators were conducted to verify and enrich the relevance of the model to be tested and to refine the hypotheses. Interviewees were selected from a list of local government administrators who had participated in a previous survey on related issues that we conducted in 2008 and who had written unsolicited comments about the advantages and disadvantages of co-creation in the questionnaire they returned to us then. Suitable participants were selected based on theoretical sampling, i.e., according to the expected contributions they could provide to building the model (Eisenhardt, 1989). They were contacted by phone, and an appointment for the phone interview was set with those who agreed to participate in the study. The main characteristics of the towns of the respondents involved at this stage of the study are summarized in Table 1.

A standardized interview protocol was followed to increase research reliability (Beverland & Lindgreen, 2010). Each interview was then coded independently by the authors of the study

and analyzed to identify recurring factors that either foster or hinder organizational learning about customers in value co-creation processes. The results were then used to enhance the conceptual validity of the model suggested by the researchers, based on the earlier literature review.

Interview #	Town population	Town's geographical location in Italy
1	10,456	Northeast
2	18,642	Northwest
3	8,965	Center
4	8,298	South
5	7,652	Northeast

Table 1: Characteristics of the municipalities of the public administrators who participated in the model refinement phase.

Three main factors hindering organizational learning emerged when combining previous studies with the information collected through the interviews (Fig. 1).



Fig. 1: The research model.

The first factor refers to citizens' lack of competencies and experiences in offering insightful inputs. Previous studies state that many administrators think that citizens do not have enough knowledge about local government to correctly evaluate municipal services (Stipak, 1980; Van Ryzin & Immerwahr, 2007). Citizens are not always capable of understanding and assessing whether they are receiving high-quality service, as they do not possess the competencies to make such evaluations (Scott, 1999). In particular, administrators complain that citizens do not understand the complexity of decision-making in the public sector, where efficiency and citizen satisfaction must be combined with "political distribution" (Brudney & England, 1982).

This factor was confirmed and well expressed by some interviewees. For example, one interviewee said, "Citizens do not know exactly what they want. Citizens, like anyone, cannot objectively judge an issue and understand a job that they do not know" (Case 1).

Another interviewee claimed, "The evaluation of services by citizens is not completely reliable. They [citizens] are not able to fully understand the complexity of managing public organizations and therefore are not able to make assessments and give trustable inputs" (Case 2). Hence, we suggest that:

*HP1:* The perception of local government administrators that citizens lack the competencies and experiences necessary for co-creating public services is negatively related to the current level of organizational learning about citizens within local government.

The second factor is linked to the potential biases of short-termism, particularism and the prevalence of emotions over rationalism in citizens' perceptions. This attitude of public officials often results from the observation that citizens' perceptions of service quality are not statistically related to the objective service output and that citizens are therefore biased (Brudney & England, 1982; Stipak, 1980; Van Ryzin & Immerwahr, 2007). Moreover, public administrators believe that citizens express particularistic demands, which do not necessarily correspond to collective needs (Swiss, 1992). These points were further articulated by some interviewees, who noted:

"Their [citizens'] evaluation of services depends on the degree of compliance to their requests. If their specific requests are not fulfilled, their assessment of municipal services will be biased. They don't have the capacity to understand that their interests do not always coincide with the interests of the other citizens" (Case 1).

"It is correct to hear the views of citizens, but it is not correct being driven by their emotions because they are too often tied to personal interests" (Case 3).

"Their [citizens'] evaluations are often superficial because they cannot understand that as a public administration, we have the responsibility of making long-run decisions and not only day-by-day choices. We must foresee the future consequences of every decision and balance

the pros and cons. The involvement of citizens in public affairs isn't possible because governing means making unpopular choices, and no citizen will ever give inputs for decisions contrary to her interests" (Case 4).

This factor is conceptually linked to the previous one, which was related to government administrators' perceptions that citizens lack the competencies and experiences necessary to successfully co-create public services. The two factors express different aspects of public administrators' skepticism about citizen involvement in co-creation activities.

Hence, we posit that:

HP2: The perception of local government administrators that citizens' perceptions are affected by biases (short-termism, particularism, the prevalence of emotions over rationalism) is negatively related to the current level of organizational learning about citizens within local government.

The third factor hindering organizational learning is the scarcity of resources (money and time, in particular). The relevance of the scarcity issue in the current scenario has been emphasized by previous studies, which have reported a severe reduction in financial transfers from central governments to local municipalities due to austerity programs (Boyne & Walker, 2010; Leslie & Canwell, 2010). Some interviewees remarked that the reduction in available resources due to long-term austerity programs have made well-structured organizational learning about citizens difficult.

"After the reduction of available resources, we had to cut costs unrelated to basic services provisions. For example we reduced the number of issues per year of our municipal bulletin and we dismissed citizen surveys" (case 2).

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Therefore, we suggest that the scarcity of resources may directly influence the level of organizational learning about citizens, regardless of the influence of the other four factors included in the model:

*HP3:* The perception of local government administrators that the resources necessary for implementing organizational learning about citizens are scarce is negatively related to the current level of organizational learning about citizens within local government.

With respect to the factors that foster organizational learning, citizen orientation has been found to be an antecedent of the intention to implement tools to communicate with and listen to citizens (Cassia & Magno, 2009). Hence, we included citizen orientation in the model. Citizen orientation refers to public administrators' perception that citizen interest should be the top priority in providing services and that achieving a high level of citizen satisfaction is paramount (Cassia & Magno, 2009). Such an orientation could motivate employees in public administration to support these new practices (Chang, Chiu, & Chen, 2010). Therefore, we suggest that:

HP4: Local government administrators' level of citizen orientation is positively related to the current level of organizational learning about citizens within local government.

Finally, administrators implementing co-creation activities within their local governments expect to derive benefits from these activities. As previously stated, such benefits include service quality improvements and citizens' active participation in decision-making (Dalehite, 2008). Several studies have noted that citizen involvement in service co-creation is important in enhancing the process of budget allocation, improving service quality and making citizens feel that their opinions are valuable (Ebdon & Franklin, 2004; Yang & Pandey, 2011). The

positive impact of co-creation on citizens' feelings that their experiences were valuable to the community was confirmed by several interviewees:

"The planning of public services should be performed through a participatory process. This allows citizens to express their suggestions and needs and also to understand why their inputs are accepted or not. Unfortunately, to do that on a large scale, cost-effective means to co-create services with citizens would be needed" (case 5). Therefore, we state that:

*HP5:* The level of benefits that local government administrators believe they can derive from co-creation is positively related to the current level of organizational learning about citizens within local government.

In sum, our model (fig. 1) is expressed by the following equation:

Level of organizational learning =  $\beta_0 + \beta_1$ (Citizens' lack of competencies and experience) +  $\beta_2$ (Biases in citizen perceptions) +  $\beta_3$ (Lack of resources) +  $\beta_4$ (Level of citizen orientation) +  $\beta_5$ (Expected benefits from co-creation)

## 4. Empirical study

#### 4.1 Methodology

To test the hypotheses, we sent surveys to 1,500 Italian municipalities (selected from the entire population of 8,101 Italian municipalities). In all, 204 questionnaires were returned, giving us a response rate of 13.6%. The average population of the towns involved in the study was 9,749. The independent variables were measured in the survey through multi-item, seven-point Likert scales (disagreement-agreement). The items included in the questionnaire are presented in Table 2.

With respect to the dependent variable (the current level of organizational learning about citizens within the local government), interviewees were asked about the adoption or non-

adoption within their local government of seven instruments to gain customer knowledge: consulting hours, citizen observation (by local government employees), spontaneous group involvement, public meetings, discussion groups, satisfaction surveys and web tools such as communities and blogs. Descriptive statistics regarding the levels of adoption of each tool are provided in Figure 2. Thus, for each respondent (municipality), the total number of adopted tools ranges from zero to seven (mean value=3.99). The mean value was used as a single proxy indicator of the level of organizational learning about citizens within the local government. The decision to use such a measure was motivated by the need to find an "objective" measure of the level of organizational learning, thus avoiding common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).



Fig. 2: Adoption and non-adoption of instruments to gain customer knowledge within the local governments included in the sample (dependent variable).

## 4.2 Results

Before testing the relationships suggested by the model (Fig. 1), a factor analysis was applied to verify the validity of the suggested multi-item measures. Five factors with an eigenvalue greater than 1 were extracted. All items had substantial loadings on the intended factor, and the five factors explained 66.53% of the variance. The results of the factor analysis, together

with the items used in the questionnaire, are shown in Table 2.

Item	Factor loading					
	1	2	3	4	5	
Citizens' lack of competencies and experiences						
Citizens do not have the correct perception of service	181	.151	151	.208	.769	
quality						
Citizens do not have the knowledge needed to evaluate	262	.222	040	.007	.771	
service quality						
Citizens do not have enough experience to judge service	.056	254	163	206	.647	
quality						
Biases in citizens' perceptions						
By co-creating with citizens, we risk emotional and	074	.731	319	.174	043	
extemporaneous decisions						
Citizen involvement in co-creation services may lead to	140	.841	.024	.053	079	
decisions oriented toward the short-term						
By co-creating with citizens, particularistic choices may	012	.840	056	.104	013	
prevail						
Lack of resources						
We do not have enough financial resources to implement	003	.148	030	.893	033	
organizational learning processes						
We do not have enough time to implement organizational	.035	.114	.047	.914	.021	
learning processes						
Expected benefits of co-creation						
Citizen involvement in co-creation is useful in creating	.134	070	.829	020	.111	
support for local government decisions						
Citizen involvement in co-creation is useful in increasing	.304	075	.784	.000	.070	
citizen trust in the local government						
Citizen involvement in co-creation increases the sense of	.314	154	.500	.072	.227	
community						
Level of citizen orientation						
Citizen satisfaction should guide local government		119	.055	035	.144	
decisions regarding provisions of services						
Services should be planned according to the needs of		116	.191	061	056	
citizens						
Citizen interest should always be a primary priority	.726	052	.220	.118	.086	
The most important aim of local government is a high level	.697	.065	.201	.008	.230	
of citizen satisfaction						

Table 2. The results of the factor analysis (varimax rotation).

Through a multiple linear regression, we estimated the model, including the five constructs, as

independent variables (Fig. 1), and the current level of organizational learning about citizens

within the local government as the dependent variable. Results are shown in Table 3. We also

tested for the presence of multicollinearity by evaluating the variance inflation factors (VIFs), which were well below the cut-off level of 10.

		Beta	<b>T-value</b>	Sig.
			41 70 4	000
	(Constant)		41.734	.000
HP1	Citizen lack of competencies and experiences	158	-2.266	.025
HP2	Biases in citizen perceptions	130	-1.862	.064
HP3	Lack of resources	160	-2.284	.024
HP4	Level of citizen orientation	.213	3.044	.003
HP5	Expected benefits from co-creation	.145	2.082	.039

Table 3. Dependent variable: current level of organizational learning about citizens.  $R^2$ =.127.

The findings support all suggested relationships at the p<.05 level of significance, with the exception of HP2, which is confirmed at the p<.10 level of significance. In particular, the perception that citizens lack the competencies and experiences to offer valuable suggestions (HP1:  $\beta_1$ =-.158, p=.025), the potential biases in citizen perceptions due to short-termism, particularism, prevalence of emotions over rationalism (HP2:  $\beta_2$ =-.130, p=.064) and lack of resources (HP3:  $\beta_3$ =-.160, p=.024) exert a negative impact on the current level of organizational learning about citizens within the local government. On the contrary, the level of public administrators' citizen orientation (HP4:  $\beta_4$ =.213, p=.003) and the expected benefits from co-creation (HP5:  $\beta_5$ =.145, p=.039) increase the current level of organizational learning. More importantly, citizen orientation emerges as the strongest antecedent ( $\beta$ =.213) of the level of organizational learning about citizens.

With regard to the model as a whole, the portion of variance explained is relatively small but significant ( $R^2$ =.127). Nonetheless, this finding is not surprising given the complexity of the decision-making processes within local government, as the attitude of a single interviewee

within the local government cannot fully and alone determine the level of organizational learning in the local government.

#### 5. Discussion and managerial implications

The success of public services co-creation does not only depend on the proper working of the interaction (or encounter) phase but also on individual tasks performed separately both by the citizen and by the public organization. The results of this study shed new light about the main task that is attributed to the supplier (i.e., the municipality, in our research) according to Payne's et al.'s framework: engaging in organizational learning about the customer experience. Nonetheless, as Payne's et al.'s framework points out, such knowledge-management activity cannot be extemporaneous and requires the implementations of adequate infrastructures and well-designed processes.

Our findings demonstrate that public administrators' perceptions are strongly related to the municipality's engagement in organizational learning about citizens. These results can be interpreted in conjunction with the recent findings of Parrado et al. (2013). Through extensive focus groups with public administrators, Parrado et al. (2013) found that many public administrators were confused or did not know about co-creation. Other administrators reported that they did not know how to practically involve citizens in the co-creation process. While our research demonstrates the importance of administrators' attitudes in fostering organizational learning, those attitudes are often biased or not based on sufficient knowledge. Moreover, the results of this study show organizational learning may be hindered by administrators' perception that many resources are needed to implement new infrastructures and processes.

Therefore, the findings seem to suggest that central governments could speed up organizational learning (and hence value co-creation) by providing municipalities with knowhow and easy-to-use, standardized IT tools. Interestingly, the Italian central government has already introduced several initiatives, and some of them date back to the 1990s, such as the project URPdegliURP (http://www.urp.it/). Currently the Department for Quality in Public Administration (Pubblica Amministrazione di Qualità, www.qualitapa.gov.it/) provides municipalities with rich and easily accessible knowledge about managing co-creation and relationships with citizens. Several best practices are described as well, and local governments can engage in benchmarking projects. In addition, since 2009 the Department for Quality in Public Administration has created an IT platform ("Mettiamoci la faccia") for the continuous and timely collection of citizens' feedback. The platform can be used for free by local governments to gather citizen knowledge about local services. Nonetheless, as of January 2014, only 960 municipalities have subscribed to the platform, and only 253 of them are currently using it (There were 248 in February 2013 and 215 in April 2012.). Hence, despite the valuable support from the Department for Quality in Public Administration, the adoption rate of well-structured customer knowledge initiatives is still low among Italian municipalities.

This evidence seems to suggest that a cultural issue is still present among municipalities regarding the importance of involving citizens in co-creation activities. The central government should address this issue by launching initiatives to enhance citizens' orientation within municipalities. In particular, these initiatives should clarify some misunderstandings. For example, public administrators express concern that collecting citizens' knowledge means being guided by short-term and particularistic interests. On the contrary, administrators should be made aware that some particularly relevant decisions regarding public service planning must made by local government administrators with a degree of autonomy. In these cases, while citizens can be consulted, decisions do not necessarily have to incorporate citizen input.

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For example, the most active citizens who spontaneously offer to participate in the co-design of new public services may support (even unconsciously) their self-interest. Accordingly, their perspective may not be representative of the community.

Finally some incentives for municipalities participating in "Mettiamoci la faccia" and similar programs may be introduced to foster organizational learning and, in turn, service co-creation.

#### 6. Conclusions

Citizen involvement in co-creating public services should be a foundation of current quality management practices in the public sector and of participative governance and democracy. At the same time, it should also be noted that some authors warn against bias toward the desirability of public service co-creation per se (Needham, 2008). Co-creation is useful only if citizens and public officials play a complementary role, which can enhance public service quality (Needham, 2008). In particular, the results of this study have shown that public officials are often not culturally ready to engage in co-creation. Therefore, they slow organizational learning about citizens, which is a foundational activity of co-creation.

In sum, our findings complement the view that mainly attributes to citizens and to the interaction processes the responsibility for the scarce diffusion and success of co-creation in the public sector.

Several limitations of this study should be highlighted. First, the results could have been influenced by the degree of development of public management practices within the specific research setting. Therefore, caution should be taken when generalizing the results to other countries. Moreover, the possibility of respondent self-selection should be noted, as the administrators and officials who completed the questionnaire could have been more oriented toward service quality management issues than the general population. Future studies may provide further insights on this topic by adopting an in-depth and longitudinal approach of co-

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creation processes in the public sector, by focusing on the individual tasks both of citizens and of public administrators, as well as on the interactive processes between the two parties.

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